NEW ISSUE – BOOK-ENTRY ONLY

Underlying Ratings:	
Fitch:	AA-
Moody's:	Aa3
Standard & Poor's:	AA-
AGM (Insured Bonds):	
Kroll:	AA+
Moody's:	A2
Standard & Poor's:	AA
(See "Ratings" herein)	

In the opinion of Bond Counsel, interest on the Bonds (as defined herein) is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the condition described in "TAX EXEMPTION AND OTHER TAX MATTERS" herein. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the individual and corporate alternative minimum taxes. However, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the Bonds. Under the existing laws of the Commonwealth of Pennsylvania, interest on the Bonds will be free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Bonds or the interest thereon. For a more complete discussion, see " TAX EXEMPTION AND OTHER TAX MATTERS " herein.

$1,242,425,000
Commonwealth of Pennsylvania
General Obligation Bonds
$460,000,000 Second Series of 2015
$782,425,000 First Refunding Series of 2015

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

The Bonds (hereafter defined) will be issued only in book-entry form initially registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Interest on the Bonds will be payable semi-annually on February 15 and August 15, commencing February 15, 2016 for the Second Series of 2015 Bonds (the "Second Series Bonds") and on February 15 and August 15, commencing February 15, 2016 for the First Refunding Series of 2015 Bonds (the "First Refunding Series Bonds", together with the Second Series 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."

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

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

The Bonds are offered when, as and if issued, and are subject to the receipt of the legal opinions of the Attorney General of the Commonwealth of Pennsylvania, Saul Ewing LLP, Harrisburg and Philadelphia, Pennsylvania and Turner Law, P.C., Philadelphia, Pennsylvania Co-Bond Counsel. The Commonwealth expects that the Bonds will be available in definitive form for delivery through the facilities of DTC on or about June 16, 2015.

ASSURED GUARANTY MUNICIPAL

The scheduled payment of principal of and interest on the Second Series of 2015 Bonds maturing on August 15 of the following years 2028, 2029 and 2030 and the scheduled payment of principal of and interest on the First Refunding Series of 2015 Bonds maturing on August 15, 2026 (collectively the "Insured Bonds" as indicated by an "***" in the table on the following page), when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp.

Dated: May 27, 2015

$1,242,425,000
Commonwealth of Pennsylvania
General Obligation Bonds

$460,000,000 Second Series of 2015

MATURITY SCHEDULE

(Base CUSIP Number*: 70914P)

Due August 15	Principal Amount	Interest Rate	Yield	CUSIP Number*	Due August 15	Principal Amount	Interest Rate	Yield	CUSIP Number*
2016	$13,725,000	5.000%	0.600%	XK3	2026	$22,630,000	3.250%	3.200%**	XV9
2017	14,430,000	5.000	1.000	XL1	2027	23,790,000	3.500	3.450**	XW7
2018	15,170,000	5.000	1.570	XM9	2028***	25,010,000	4.000	3.670**	XX5
2019	15,945,000	5.000	1.690	XN7	2029***	26,290,000	4.000	3.740**	XY3
2020	16,765,000	5.000	1.990	XP2	2030***	27,640,000	4.000	3.830**	XZ0
2021	17,625,000	5.000	2.290	XQ0	2031	29,060,000	5.000	3.530**	YA4
2022	18,525,000	5.000	2.540	XR8	2032	30,550,000	5.000	3.590**	YB2
2023	19,475,000	5.000	2.710	XS6	2033	32,115,000	4.000	4.020	YC0
2024	20,475,000	5.000	2.860	XT4	2034	33,760,000	4.000	4.060	YD8
2025	21,525,000	5.000	2.970	XU1	2035	35,495,000	4.000	4.100	YE6

$782,425,000 First Refunding Series of 2015

MATURITY SCHEDULE

(Base CUSIP Number*: 70914P)

Due February 15	Principal Amount	Interest Rate	Yield	CUSIP Number*
2016	$7,455,000	5.000%	0.220%	YF3

Due August 15	Principal Amount	Interest Rate	Yield	CUSIP Number*	Due August 15	Principal Amount	Interest Rate	Yield	CUSIP Number*
2016	$4,540,000	5.000%	0.600%	YG1	2022	$116,175,000	5.000%	2.540%	YN6
2017	66,450,000	5.000	1.000	YH9	2023	187,250,000	5.000	2.710	YP1
2018	48,540,000	5.000	1.570	YJ5	2024	117,015,000	5.000	2.860	YQ9
2019	22,455,000	5.000	1.690	YK2	2025	145,675,000	5.000	2.970	YR7
2020	12,025,000	5.000	1.990	YL0	2026***	20,805,000	5.000	3.058**	YS5
2021	34,040,000	5.000	2.290	YM8					

* 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 August 15, 2025.

***Insured Bonds

THE ISSUING OFFICIALS

Governor …..………..………………………………...TOM WOLF
Executive Deputy State Treasurer…..CHRISTOPHER CRAIG
Auditor General…………………….EUGENE A. DePASQUALE

OFFICE OF THE BUDGET

Secretary………………...……………………..RANDY ALBRIGHT

Attorney General of the Commonwealth of Pennsylvania:

Kathleen Kane

Co-Bond Counsel:

Saul Ewing LLP
Harrisburg and Philadelphia, Pennsylvania

Turner Law, P.C.
Philadelphia, Pennsylvania

Special Disclosure Counsel:

Obermayer Rebmann, Maxwell & Hippel LLP
Philadelphia, Pennsylvania

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

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "Exhibit H - Specimen Municipal Bond Insurance Policy".

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

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

TABLE OF CONTENTS

SUMMARY INFORMATION

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

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

Offering.................................. $1,242,425,000 Commonwealth of Pennsylvania, General Obligation Bonds, consisting of $460,000,000 Second Series of 2015 (the "Second Series Bonds") and $782,425,000 First Refunding Series of 2015 (the "First Refunding Series Bonds" and collectively with the Second Series Bonds, the "Bonds").

Dated Date .... Date of Issuance and Delivery

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

Certain maturities are insured by a municipal bond insurance policy. See "Bond Insurance" herein.

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

Purpose	**Principal Amount**
Second Series Bonds	
Capital Facilities Projects	$285,000,000
Act 89 Transportation Funding	$145,000,000
Growing Greener II	$30,000,000
First Refunding Series Bonds	
Refunding	$782,425,000

Redemption............................. The Second Series Bonds maturing on or after August 15, 2026 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 August 15, 2025 at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption.

The First Refunding Series Bonds maturing on August 15, 2026 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 August 15, 2025 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........................ Bonds are issued in fully registered form through a book-entry only system.

Loan & Transfer Agent......... Manufacturers and Traders Trust Company, a New York banking corporation, Harrisburg, Pennsylvania.

Legal Opinions .... Saul Ewing LLP, and Turner Law, P.C. Co-Bond Counsel.
Kathleen Kane, Attorney General of the Commonwealth of Pennsylvania.

Bond Ratings .... Fitch Ratings.. AA- (outlook "Stable")
Moody's Investors Service .... Aa3 (outlook "Stable")
Standard & Poor's Rating Services.................................... AA- (outlook "Stable")
(a division of the McGraw-Hill Companies)

Official Statement

$1,242,425,000
Commonwealth of Pennsylvania
General Obligation Bonds
$460,000,000 Second Series of 2015
$782,425,000 First Refunding Series of 2015

INTRODUCTION

This Official Statement of the Commonwealth of Pennsylvania (the "Commonwealth"), including the cover page and appendices, presents certain information in connection with the issuance of $1,242,425,000 Commonwealth of Pennsylvania, General Obligation Bonds, consisting of $460,000,000 Second Series of 2015 (the "Second Series Bonds") and $782,425,000 First Refunding Series of 2015 (the "First Refunding Series Bonds" and collectively with the Second Series Bonds, the "Bonds"). The Bonds are being issued to provide funds for and toward the costs of various capital projects and the refunding of certain previously issued bonds. See "USE OF PROCEEDS."

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

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

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

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

THE BONDS

Description of the Bonds

The Second Series Bonds will be dated the date of issuance and delivery, will bear interest initially from such date, at the rate per annum for each maturity as specified on the inside cover page hereof. Such interest will be payable semi-annually on each February 15 and August 15, commencing February 15, 2016, calculated on the basis of a 360-day year of twelve 30-day months, and will mature in the amounts and on the dates as set forth on the inside cover page hereof.

The First Refunding Series Bonds will be dated the date of issuance and delivery, will bear interest initially from such date, at the rate per annum for each maturity as specified on the inside cover page hereof. Such interest will be payable semi-annually on each February 15 and August 15, commencing February 15, 2016, calculated on the basis of a 360- day year of twelve 30-day months, and will mature in the amounts and on the dates as set forth on the inside cover page hereof.

The Resolutions (as defined in Appendix F attached hereto) 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 Philadelphia, 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 first day (whether or not a business day) of the calendar month in which occurs each interest payment date (the "Record Date"). Any interest on any Bond not timely paid or duly provided for shall cease to be payable to the person who is the registered owner as of the regular Record Date, and shall be payable to the person who is the registered owner at the close of business on a special record date for the payment of such defaulted interest. A special record date shall be a date not more than fifteen nor less than ten days prior to the date of the proposed payment and shall be fixed by the Loan and Transfer Agent whenever moneys become available for payment of the defaulted interest. Notice of a special record date shall be given to registered owners of the Bonds not less than fifteen days prior thereto.

Whenever the due date for payment of interest on or principal of the Bonds or the date fixed for redemption of any Bond shall be a Saturday, a Sunday, a legal holiday or a day on which banks in the Commonwealth are required or authorized by law (including by executive order) to close, then payment of such interest, principal or redemption price need not be made on such date, but may be made on the next succeeding day which is not a Saturday, a Sunday, a legal holiday, or a day upon which banks in the Commonwealth are required or authorized by law (including by executive order) to close, with the same force and effect as if made on the due date for 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 maturing in the years 2016 through 2025, inclusive, are not subject to redemption prior to maturity. The Bonds, or portions thereof in integral multiples of $5,000, maturing on and after August 15, 2026, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after August 15, 2025, 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^{th}) business day prior to such mailings; provided, however, that any defect in the notice or in the mailing thereof with respect to any registered owner shall not affect the validity of the proceedings for such redemption as to any other registered owner. Deposit of any such notice in the United States mail shall constitute constructive receipt of such notice by the registered owner to whom such notice is sent. Notice having been given as aforesaid and provision having been made for redemption from funds on deposit with the Loan and Transfer Agent, no interest on 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.

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

SECURITY AND SOURCE OF PAYMENT FOR BONDS

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

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

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

For a description of the constitutional provisions relating to the Bonds, see Appendix E. The proposed form of the opinion of the Attorney General is set forth in Appendix F and the proposed form of the opinion of 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 (the "Capital Facilities Debt Enabling Act"), and Act No. 2013-89, approved November 25, 2013, the Growing Greener Environmental Stewardship and Watershed Protection Enhancement Authorization Act, Act No. 2005-1, approved April 13, 2005 (the "Growing Greener Environmental Stewardship and Watershed Protection Enhancement Authorization Act"); Act No. 2005-45, approved July 13, 2005 (collectively with the Growing Greener Environmental Stewardship and Watershed Protection Enhancement Authorization Act, the "Growing Greener II Acts"); a constitutional referendum question approved by the voters of the Commonwealth on May 17, 2005 (the "Growing Greener Referendum"), annual capital budget bills and various bond authorization bills enacted by the General Assembly, including but not limited to, the Capital Budget Act of 2014-2015, Act No. 2014-128, approved July 10, 2014 (the "Capital Budget Act") and the Transportation Funding Act, Act No. 2013-89, approved November 25, 2013 ("Act 89").

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[(a)]
February 28, 2015
(In Millions)

Average Annual Tax Revenues FYs ended June 30, 2010-2014..	$ 35,048.3
Times 1.75..	61,334.5
Less: Net Debt Outstanding[(b)]	10,132.7
Debt Issuable Within Limit	$ 51,201.8

(a) As certified by the Auditor General on February 28, 2015 (Appendix A).
(b) 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.

Table 2
Aggregate Capital Debt Authorization
(In Millions)

Capital Facilities Projects Category	Debt Authorized	Issued[a]	Authorized But Unissued	Pro Forma Remaining Debt Authorized After Issuance Of the Bonds
Buildings and Structures	$ 36,352.3	$ 11,518.5	$ 24,833.8	$ 24,833.8
Furniture and Equipment	1,408.8	496.5	912.3	862.3
Transportation Assistance	12,663.9	3,861.9	8,802.0	8,802.0
Redevelopment Assistance	43,462.0	4,239.8	39,322.2	38,987.2
Community Colleges	35.8	28.0	7.8	7.8
Highway and Highway Bridge	43,341.3	2,787.5	40,553.8	40,408.8
Flood Control	694.5	65.8	628.7	628.7
Total	$ 137,958.6	$ 22,998.0	$ 114,960.6	$ 114,530.6

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

The amount of debt that may be issued in any given fiscal year for capital projects authorized in current or previous capital budgets is enacted annually by the General Assembly and approved by the Governor. The maximum amount of debt currently authorized by the fiscal year 2015 capital budget is as shown in Table 3. Act 89 of 2013, the Transportation Funding Act, authorized the issuance of $500 million for highway and bridge projects.

Table 3
Fiscal Year 2015 Capital Budget Debt Limits[a] and
Act 2013-89 Capital Debt Limits[b]
(In Millions)

Capital Facilities Projects Category	Limits	Issued to Date	Remaining Issuable Within Limit	Pro Forma Remaining After Issuance Of the Bonds
Buildings and Structures	$ 725.0	$ 725.0	$ 0.0	$ 0.0
Furniture and Equipment	50.0	0.0	50.0	0.0
Transportation Assistance	175.0	175.0	0.0	0.0
Redevelopment Assistance	335.0	100.0	235.0	0.0
Flood Control	10.0	0.0	10.0	10.0
Total	$ 1,295.0	$ 1,000.0	$ 295.0	$ 10.0
Highway and Highway Bridge (Act 89)	$ 500.0	$ 0.0	$ 500.0	$ 355.0

[a] The fiscal year 2015 capital budget debt limits became effective on July 10, 2014, and will remain in force until enactment of the fiscal year 2016 capital budget debt act.

[b] The Act 89 capital debt limits became effective on November 25, 2013, and will remain in force until $500 million has been issued.

Upon issuance of $285.0 million aggregate principal amount of the Second Series Bonds under the fiscal year 2015 Capital Budget, $10.0 million principal amount of debt will remain authorized and unissued thereunder. See "USE OF PROCEEDS-Capital Facilities."

The Growing Greener II Acts authorized the issuance of $625.0 million aggregate principal of debt for the purpose of the maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives. See "USE OF PROCEEDS-Growing Greener Projects." To date, bonds in the principal amount of $569.0 million have been issued pursuant to the authority of the Growing Greener II Acts. Upon the issuance of $30.0 million of the Bonds pursuant to the Growing Greener II Acts, $26.0 million principal amount of debt will remain authorized and unissued thereunder.

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

USE OF PROCEEDS

The Commonwealth is issuing the Bonds for the following purposes:

(i) $285,000,000 aggregate principal amount of the Second Series Bonds will be issued to provide for the construction, acquisition and major rehabilitation of capital facilities projects as described below under "Capital Facilities";

(ii) $145,000,000 aggregate principal amount of the Second Series Bonds will be issued to provide funding for capital highway and bridge projects per Act 89 described below under "Act 89 of 2013";

(iii) $30,000,000 aggregate principal amount of the Second Series Bonds will be issued to provide for maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives as described below under "Growing Greener Projects",

(iv) $782,425,000 aggregate principal of the First Refunding Series Bonds will be used to refund prior issues of bonds of the Commonwealth. See "Plan of Refunding" herein; and

(v) $2,842,195 of the proceeds shall be applied to the costs of issuance, including paying the premium of a municipal bond insurance policy for the Bonds.

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

Capital Facilities

The proceeds of the Second Series Bonds will be deposited into the Capital Facilities Fund and applied: 1) to defray the costs of issuance of the Second Series Bonds and 2) to the financial costs of various capital facilities projects of the Commonwealth. Of the combined $285,000,000 aggregate principal amount of the Second Series Bonds issued for capital facilities: (i) $235,000,000 aggregate principal amount of the Second Series Bonds shall be allocated to fund redevelopment assistance projects; (ii) $50,000,000 aggregate principal amount of the Second Series Bonds is to be allocated to the Department of General Services and used to pay for original furniture and equipment projects. Pending application to the above purposes, the proceeds of the Second Series Bonds allocated to these purposes will be held by the State Treasurer in the Capital Facilities Fund and invested in accordance with applicable state and federal laws.

Act 89 of 2013

A portion of the proceeds of the Second Series Bonds is dedicated to the purposes of the Transportation Funding Act, Act 89 of 2013. The proceeds from $145,000,000 aggregate principal amount of the Second Series Bonds to be issued for Act 89 will be applied to defray the financial costs for the Commonwealth's highway and bridge projects and to pay the costs of issuance of the Second Series Bonds allocated to such purposes. Upon the issuance of $145,000,000 of the Bonds pursuant to Act 89, $355,000,000 principal amount of debt will remain authorized and unissued thereunder. Repayment will be from the Motor License Fund and bond money may only be used for projects specifically itemized in a capital budget itemization bill.

Growing Greener Projects

A portion of the proceeds of the Second Series Bonds is dedicated to the purposes of the Growing Greener II Acts and to pay the costs of issuance of the Second Series Bonds allocated to such purposes. The proceeds from $30,000,000 aggregate principal amount of the Second Series Bonds to be issued for the Growing Greener II Acts will be deposited into the Growing Greener Bond Fund (established pursuant to the Growing Greener II Acts) and applied to the costs of maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives. Pending application to the above purposes, the proceeds of the Bonds allocated to these purposes will be held by the State Treasurer in the Growing Greener Bond Fund and invested in accordance with applicable state and federal laws.

Plan of Refunding

The Refunded Bonds are as follows:

Principal Amount to be Refunded	Bond Series	Date of Issue	Bonds Maturing on	Date of Redemption
$165,490,000	Third Series of 2004	September 28, 2004	September 1, 2016-2019	July 16, 2015
$30,050,000	First Series of 2005	June 9, 2005	July 1, 2024, 2025	July 16, 2015
$87,630,000	Second Series of 2005	December 15, 2005	January 1, 2024, 2026	January 1, 2016
$149,260,000	First Series of 2006	June 8, 2006	October 1, 2021-2026	October 1, 2016
$91,060,000	Second Series of 2006	December 21, 2006	March 1, 2023, 2024	March 1, 2017
$107,020,000	First Series A of 2007	June 7, 2007	November 1, 2020, 2022-2025	November 1, 2017
$147,425,000	Second Series A of 2007	December 20, 2007	August 1, 2022-2025	August 1, 2017
$2,880,000	Second Series B of 2007	December 20, 2007	August 1, 2023, 2024	August 1, 2017
$60,265,000	First Series of 2008	June 5, 2008	May 15, 2022, 2024, 2025	May 15, 2018

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

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Second Series of 2015 Bonds maturing on August 15 of the years 2028-2030 and the scheduled payment of principal of and interest on the First Refunding Series of 2015 Bonds maturing on August 15, 2026 (collectively the “Insured Bonds”), Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Insured Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

ASSURED GUARANTY MUNICIPAL CORP.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On November 13, 2014, KBRA assigned an insurance financial strength rating of "AA+" (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). On February 18, 2015, Moody's published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Capitalization of AGM

At March 31, 2015, AGM's policyholders' surplus and contingency reserve were approximately $3,730 million and its net unearned premium reserve was approximately $ 1,702 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (filed by AGL with the SEC on February 26, 2015); and

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 (filed by AGL with the SEC on May 8, 2015).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Insured Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Insured Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Insured Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Insured Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

COMMONWEALTH GOVERNMENT

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

Name	Office	Term Expires
Tom Wolf	Governor	January 15, 2019
Mike Stack	Lieutenant Governor	January 15, 2019
Kathleen Kane	Attorney General	January 17, 2017
Christopher Craig	Executive Deputy State Treasurer*	January 17, 2017
Eugene A. DePasquale	Auditor General	January 17, 2017

* Pennsylvania Treasurer Robert McCord resigned from office on January 30, 2015. Under Pennsylvania state law, when the Treasurer's office is vacant for any reason the person in the next position of authority in Treasury is authorized to exercise the powers and duties of the State Treasurer. The Governor of Pennsylvania has the power to appoint a State Treasurer to serve the unexpired portion of former Treasurer McCord's term, and the Governor's appointee must then be approved by two-thirds of the members of the Pennsylvania State Senate.

Commonwealth Employees

Employees are permitted to organize and bargain collectively. As of June 2014, 81.7 percent of the full-time salaried employees under the Governor's jurisdiction were covered by collective bargaining agreements or memoranda of understanding. Approximately 43 percent of state employees are represented by the American Federation of State, County and Municipal Employees ("AFSCME"). Approximately 61 percent of state employees, represented by AFSCME, Pennsylvania Social Services Union and other unions, are covered by contracts that took effect July 1, 2011 and expire on June 30, 2015. There has been a tentative agreement on a one-year contract running from July 1 through June 30, 2016 which is awaiting final approval. Each of these contracts provide for a pay freeze in the first year of the contract and general pay increases totaling four percent over the balance of their term. Interest arbitration awards typically dictate the salary increase to be provided to employees covered by five other unions. In this case, the Commonwealth reached an agreement with one of these unions (short of interest arbitration) that provided a four-year contract commencing on July 1, 2012 that grants general pay increases totaling four percent over the contract term.

The contract terms of the other four unions were determined through the interest arbitration process. One of those awards provided for a three year contract commencing on July 1, 2011 which similarly provides for general pay increases totaling four percent over the term of contract. Said contract expired on June 30, 2014 and the Commonwealth is currently awaiting an interest arbitration award that will dictate the terms of the successor contract. The first and third interest arbitration units were issued awards providing a four year contract commencing July 1, 2011 which affords general pay increases totaling five and a half percent over the term of such contract. The remaining interest arbitration unit was awarded a five-year contract expiring on June 30, 2017 which provides for a general pay increase totaling eleven percent over the term of the contract. Table 4 presents the number of approved and filled positions under the Governor's jurisdiction on July 1st of the years 2010 through 2014.

Table 4
Filled Salaried Positions and Employees
Under the Governor's Jurisdiction[(a)]
2010-2014

As of July 1	Total Full and Part Time Filled Salaried Positions	Total Full Time Salaried Employees	Civil Service Salaried Positions	Civil Service As a % of Total Filled Salaried Positions
2010	76,110	75,878	52,512	69.0
2011	74,086	73,874	50,991	68.8
2012	75,540	74,336	51,226	68.7
2013	72,768	72,574	49,898	68.6
2014	72,650	72,347	49,619	68.5

(a) Excludes employees of the legislative and judicial branches, the Department of the Auditor General, the Treasury Department, the State System of Higher Education and independent agencies, boards and commissions.
Source: Office of Administration, 2015 State Government Workforce Statistics.

COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES

The Pennsylvania Constitution and the laws of the Commonwealth require all payments from the State Treasury, with the exception of refunds of taxes, licenses, fees and other charges, to be made only by duly enacted appropriations. Amounts appropriated from a fund may not exceed its actual and estimated revenues for the fiscal year plus any unappropriated surplus available. Appropriations from the principal operating funds of the Commonwealth (the General Fund, the Motor License Fund and the State Lottery Fund) are generally made for one fiscal year and are returned to the unappropriated surplus of the fund (a lapse) if not spent or encumbered by the end of the fiscal year. The Commonwealth's fiscal year begins July 1 and ends June 30. (Fiscal year 2015 refers to the fiscal year ended June 30, 2015.) See Appendix C for a further description of the fiscal administration of the Commonwealth.

Description of Funds

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

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

The Motor License Fund receives all tax and fee revenues relating to motor fuels and vehicles. 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 on a subordinate basis.

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

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

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

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

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

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

Accounting Practices

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

Budgetary Basis

A budgetary basis of accounting is used for ensuring compliance with the enacted operating budget and is governed by applicable statutes of the Commonwealth and by administrative procedures. The Constitution provides that operating budget appropriations shall not exceed the actual and estimated revenues and unappropriated surplus available in the fiscal year for which funds are appropriated. Annual budgets are enacted for the General Fund and certain special revenue funds that together represent the majority of expenditures of the Commonwealth. The annual budget classifies fund revenues as Commonwealth revenues, augmentations, federal revenues, or restricted receipts and revenues. Commonwealth revenues are revenues from taxes and from non-tax sources such as licenses and fee charges, penalties, interest, investment income and other miscellaneous sources. Augmentations consist of departmental and institutional billings that supplement an appropriation of Commonwealth revenues, thereby increasing authorized spending. For example, patient billings for services at Commonwealth-owned institutions are augmentations that supplement Commonwealth revenues appropriated to each institution for operating costs. Federal revenues are those federal aid receipts that pay for or reimburse the Commonwealth for funds disbursed for federally assisted programs. Restricted receipts and revenues are funds that are restricted to a specific use or uses by state law, administrative decision, or the provider of the funds. Only Commonwealth revenues and expenditures from these revenues are included in the computation made to determine whether an enacted budget is constitutionally balanced. Augmenting revenues and federal revenues are considered to be self-balancing with expenditures from their respective revenue sources.

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

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

GAAP Financial Reporting

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

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

An independent public accounting firm and the Department of the Auditor General jointly audit the Commonwealth's annual GAAP basis financial statements. The Commonwealth's independent public accounting firm, KPMG LLP, has not been engaged to perform and has not performed, since the date of its report on the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014, which is incorporated herein by reference, any procedures on the financial statements addressed in that report nor has it performed any other procedures specifically relating to this Official Statement. The audited Basic Financial Statements are a component of the Commonwealth's Comprehensive Annual Financial Report ("CAFR"). The CAFRs for recent fiscal years, including the fiscal year ended June 30, 2014, have been filed with the Municipal Securities Rulemaking Board via its Electronic Municipal Market Access system ("EMMA") and are available from EMMA (http://www.emma.msrb.org) and at the Budget & Financial Reports section of the Office of the Budget's web site - www.budget.state.pa.us - and such CAFRs are incorporated herein by reference.

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. The legislative authorization to invest in such securities presently expires on December 31, 2019.

Budget Stabilization Reserve Fund and Tax Stabilization Reserve Fund

Legislation enacted with the adoption of the fiscal year 2003 budget abolished the Tax Stabilization Reserve Fund and transferred its balance of $1,038 million to the General Fund. That legislation also established a new reserve fund named the Budget Stabilization Reserve Fund.

As of June 2014, the Commonwealth had an approximate $230,000 balance in the Budget Stabilization Reserve Fund. Based on estimates as of the Mid-Year Budget Briefing on December 3, 2014, for fiscal year 2015, the Commonwealth projects a preliminary fiscal year 2015 ending balance of $2 million. The enacted fiscal year 2015 budget transfers 25% of the Commonwealth's unappropriated balance of approximately $0.5 million to the Budget Stabilization Reserve Fund for fiscal year 2015.

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

COMMONWEALTH FINANCIAL PERFORMANCE

Adopted Fiscal Year 2015 Budget

On July 10, 2014, the Commonwealth's fiscal year 2015 budget was signed into law by Governor Corbett. The fiscal year 2015 budget included a projected increase in Commonwealth tax revenues, prior to reserves for tax refunds, of 3.5% over fiscal year 2014 revenue. The rate of growth was based upon a projection as of June 2014 that state economic growth would rebound from the lower level experienced during fiscal year 2014. The enacted fiscal year 2015 budget increased expenditures by 1.5% on a year-over-year basis. The budget document and related information are available on the Governor's Budget Office web page at www.budget.state.pa.us. The budget document for fiscal year 2015 and related information for Governor Wolf's FY 2016 budget proposal is incorporated by reference in its entirety into this Official Statement. The enacted fiscal year 2015 budget included approximately $2 billion in one-time gap closing options that were used to balance the budget; these one-time options are not available to help balance subsequent budgets. The majority of the options used were extraordinary lapses of existing appropriations ($417 million), transfers from special funds into funds requiring additional funding ($333 million), payment delays ($394 million) and shifting costs to non-recurring sources in future fiscal years ($503 million). The projected fiscal year 2015 ending General Fund balance as of the December 2014 mid-year briefing was estimated to be $1 million.

Governor's Fiscal Year 2016 Budget Proposal

On March 3, 2015, Governor Wolf introduced his balanced Executive Budget proposal for the Commonwealth's Fiscal Year ending June 30, 2016. The Governor's Fiscal Year 2016 budget proposal recommends $29.884 billion in state-funded expenditures from $30.013 billion in total state revenues, a projected increase in state-funded spending of 2.7% above the appropriations enacted for Fiscal Year 2015. Governor Wolf's proposal addresses the Commonwealth's $2.3 billion funding deficit for fiscal year 2016, and is centered on the three broad priority program areas of jobs, education, and government operational savings and reform. For jobs, the Governor's budget includes proposals that: the corporate net income tax be reduced by 40% from 9.99% to 5.99% effective January 1, 2016, and then to 4.99% by 2018; the Capital Stock and Franchise Tax be phased out effective January 1, 2016; and, the Commonwealth implement mandatory combined reporting for tax purposes for all business entities in a controlled group effective January 1, 2016 to close the "Delaware loophole" which results in the Commonwealth collecting less tax revenue than would otherwise be the case. The Governor's budget proposal also includes a $3.8 billion school property tax cut proposal targeted to high-tax, high-poverty areas of Pennsylvania that seeks to revitalize the Commonwealth's communities. To achieve the school property tax relief, the Governor's budget proposes increasing Pennsylvania's personal income tax rate to 3.7%, (from 3.07%) while also exempting low-income families earning up to 150% of the poverty level from paying any personal income tax. Governor Wolf's proposed budget includes changing the state's sales tax to be more consistent with the service-based modern economy. The Governor's budget proposes to increase the sales tax rate by 0.6% and to broaden the sales tax base to include services (including professional services) while maintaining exemptions for food, clothing, and prescription drugs. Another initiative is a proposed $675 million bond program to fund a broad range of economic development initiatives to be supported by a new Marcellus Shale severance tax on drilling in Pennsylvania. Governor Wolf's budget would increase appropriations to support the state-related universities, the universities in the Pennsylvania State System of Higher Education, and the state's community colleges. Among the most important initiatives in the Governor's proposed budget is a proposal to increase the state's basic education subsidy by $400 million (a 7% increase), increase the special education subsidy by $100 million (a 9.6% increase), and to increase by $120 million (a 87.9% increase) funding for high-quality early childhood education to expand pre-K and Head Start program availability to an additional 14,000 children. The proposed budget also provides a three-part reform strategy to meet the Commonwealth's SERS and PSERS pension funding challenges: instituting pension investment reforms to reduce excessive management fees and overreliance on high-risk investment strategies; eliminate the "double dip" payments to charter schools; and a strategy to cause all actuarially required employer obligations to be paid in full by creating a restricted account to hold all future employer payments and issuance of pension funding bonds payable from enhanced Liquor Control Board State Store profits. Additional summary and detailed information about Governor Wolf's fiscal year 2016 proposed budget is available at www.budget.state.pa.us under the Current and Proposed Commonwealth Budgets designations. See "COMMONWEALTH GOVERNMENT AND FISCAL ADMINISTRATION-The Budgetary Process" for a description of the process required to achieve an enacted fiscal year budget. It cannot be predicted whether all or what portion of the Governor's fiscal year 2016 budget proposal will be included in the fiscal year 2016 budget as finally enacted or at what date such budget will be enacted. If a Fiscal Year 2016 budget is not enacted for the Commonwealth by July 1, 2015 then the impact of that event, including any potential adverse effects, on the Commonwealth will have to be assessed at that time.

Financial Statements Introduction

The most recent Commonwealth audited financial statements are available in the CAFR of the Commonwealth for the fiscal year ended June 30, 2014, which was issued on December 21, 2014 and was filed with EMMA on December 22, 2014.

Copies of CAFRs beginning with fiscal year 2004 through fiscal year 2014 issued by the Commonwealth are available from (i) the Secretary of the Budget, Attn: Mr. Mike Higgins, 555 Walnut Street, 9th Floor, Harrisburg, Pennsylvania 17101 (Telephone (717) 425-6736), and (ii) the Financial Reports section of the Office of the Budget's web site at www.budget.state.pa.us, which CAFRs are incorporated herein by reference. The audited Basic Financial Statements for fiscal year 2014 included in the CAFR for fiscal year 2014 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 of the Commonwealth as a part of their review of this entire Official Statement.

Government-Wide Financial Data (GAAP Basis)

Government-wide financial statements report financial position and results of activity for the Commonwealth as a whole. Government-wide statements do not report information fund-by-fund; rather, they reveal information for all governmental activities and all business-type activities in separate columns. In government-wide statements, for both governmental and business-type activities, the economic resources measurement focus and accrual basis of accounting are used, with revenues and expenses recognized when they occur, rather than when cash is received or paid. This 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 presents condensed comparative financial statement information derived from the Commonwealth's government-wide June 30 Statement of Net Position for the fiscal years indicated and includes amounts for the "primary government" only.

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Table 5

Government-wide Condensed Statement of Net Position as of June 30, 2013 and 2014

(Amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Assets:						
Cash and investments...............	$ 9,023	$ 9,818	$ 6,259	$ 5,815	$ 15,282	$ 15,633
Capital assets (net)..................	33,865	33,162	499	480	34,364	33,642
All other assets.........................	8,163	7,776	1,792	1,978	9,955	9,754
Total assets............................	51,051	50,756	8,550	8,273	59,601	59,029
Total deferred outflows........	175	-	2	-	177	-
Liabilities:						
Accounts payable....................	6,212	6,268	801	908	7,013	7,176
All other current liabilities........	4,165	3,604	1,239	1,033	5,404	4,637
Bonds payable, non-current......	12,264	11,224	4,230	4,754	16,494	15,978
All other long-term liabilities...	5,704	5,337	2,817	2,777	8,521	8,114
Total liabilities......................	28,345	26,433	9,087	9,472	37,432	35,905
Net position:						
Net invested in capital assets....	28,345	27,775	489	465	28,834	28,240
Restricted................................	2,195	2,235	938	748	3,133	2,983
Deficit.....................................	(7,659)	(5,687)	(1,962)	(2,412)	(9,621)	(8,099)
Total net positon..................	$ 22,881	$ 24,323	$ (535)	$ (1,199)	$ 22,346	$ 23,124

Source: Comprehensive Annual Financial Report, fiscal year ended June 30, 2014 (GAAP).

During the fiscal year ended June 30, 2014, the overall financial position (net position) of the Commonwealth's primary government, including both governmental and business-type activities, decreased $778 million, or approximately 3.4 percent of total beginning net position of $23,124 million. The overall $594 million increase in net investment in capital assets reflects the Commonwealth's investment in highway and bridge infrastructure as well as land, building, right-of-way and waterway improvements. Total deferred outflows of $177 million represent the recognition of aggregated net losses on bond refundings as deferred outflows of resources in accordance with GASB Statement No. 65 which was implemented in fiscal year 2014. GASB Statement No. 65 reclassified certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, revenues or expenses/expenditures.

An overall surplus in net position is reported for Governmental Activities; however, the majority of the surplus is related to net investment in capital assets which are unavailable to utilize in satisfying the Commonwealth's day-to-day expenses. The decrease of $1,442 million in Governmental Activities total net position during the fiscal year is a result of numerous factors. Significant factors include tax revenues remaining level coupled with expense increases. The largest expense increases occurred for medical assistance programs, support for public education and higher personnel benefit costs. The increase of $664 million in the Business-Type Activities total net position is primarily due to growth in Lottery sales and an increasing participation in purchasing higher education credits and an increase in investment income in the Tuition Payment Fund.

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, 2014, were $17,213.8 million. Liabilities for the same date totaled $10,381.4 million and deferred inflows of resources totaled $2,815.6 million resulting in a fund balance of $4,016.8 million, a decrease of $1,796.4 million from the restated fund balance at June 30, 2013. On a fund specific basis, the fund balance for the General Fund decreased by $2,131.7 million, the fund balance for the Motor License Fund increased by $59.5 million and the fund balance for aggregated non-major funds increased by $275.8 million. See "General Fund – Fiscal Year 2014 Financial Results" and "Motor License Fund – Fiscal Year 2014 Financial Results."

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

Table 6
Reconciliation of the Balance Sheet
Governmental Funds (Fund Perspective) to
the Statement of Net Position - Governmental Activities
June 30, 2014
(In Thousands)

Fund Balances - Governmental Funds		
General Fund	$	(566,038)
Motor License Fund		1,122,852
Nonmajor Funds		3,459,963
Total Fund Balance - Governmental Funds	$	4,016,777
Plus: Capital Assets, including infrastructure	$	55,349,137
Less: Accumulated depreciation		(21,533,276)
Plus: Deferred revenue		2,815,610
Plus: Deferred outflows of resources		175,240
Plus: Other miscellaneous adjustments		6,013
Plus: Net assets of internal service funds		87,302
Plus: Inventories		93,888
Less: Long-term liabilities		(18,129,432)
Total Net Position - Governmental Activities	$	22,881,259

Source: Comprehensive Annual Financial Report, fiscal year ended June 30, 2014.

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

The financial tables that follow containing GAAP basis financial data are unaudited but are derived from the Commonwealth's audited financial statements. The discussion of financial performance on a budgetary basis for prior fiscal years is based on an analysis of budget numbers and not on numbers prepared in accordance with GAAP. Likewise, the discussion of the enacted fiscal year 2015 budget reflects a budgetary basis analysis rather than a GAAP basis analysis.

General Fund

Financial Results for Fiscal Years 2010-2014

GAAP Basis. During the five-year period from fiscal year 2010 through fiscal year 2014, total revenues and other sources increased by an average of 0.7 percent annually. Tax revenues during this same period increased by an annual average of 3.0 percent. Intergovernmental revenues have declined from the peak in 2011 as the phase-out of Federal ARRA grants occurred. Expenditures and other uses during the fiscal years 2010 through 2014 rose at an average annual rate of 1.6 percent. Expenditures for the protection of persons and property during this period increased at an average annual rate of 1.8 percent; public education expenditures during this period decreased at an average annual rate of 0.6 percent; health and human services expenditures increased at an average annual rate of 3.3 percent; and capital outlays increased at an average annual rate of 10.2 percent. Commonwealth expenditures for direction and support services (state employees and government administration) declined at an average annual rate of 3.3 percent during the fiscal years 2010 through 2014. The fund balance deficit at June 30, 2014, was $566.0 million, a reduction of $2,131.7 million from the restated positive balance at June 30, 2013 of $1,565.7 million. Table 7, on the next page, presents fund balance information for fiscal year 2010 according to the prior standards as well as the fund balance for the fiscal years 2011 through 2014 according to GASB Statement No. 54.

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Table 7 presents a summary of revenues and expenditures (GAAP basis) for the General Fund, (including the Budget Stabilization Reserve Fund) for the fiscal years 2010 through 2014.

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

	Fiscal Year Ended June 30				
	2010	**2011**	**2012**	**2013**	**2014**
Fund Balance — Beginning of Period	$ 515,178	$ 284,803	$ 1,621,435	$ 1,259,295	$ 1,566,010
Restatements	-	280,420	-	(6,165)	(342)
Fund Balance — Beginning of Period, as Restated	$ 515,178	$ 565,223	$ 1,621,435	$ 1,253,130	$ 1,565,668
Revenues:					
Taxes	$24,284,811	$25,883,652	$26,577,129	$27,574,159	$ 27,277,301
Licenses and fees	607,334	466,089	526,547	587,720	537,242
Intergovernmental	21,847,421	23,597,695	20,276,131	20,151,590	19,995,975
Charges for sales and services	984,762	1,438,536	1,449,895	1,451,899	1,494,040
Other revenues	221,264	228,079	353,198	408,449	247,894
Other Financing Sources:					
Operating transfers in	738,871	1,063,293	424,622	450,234	485,641
Bonds issued and bond premiums	-	-	51,847	-	-
Other additions	-	-	108,263	1,251	715
TOTAL REVENUES AND OTHER SOURCES	$48,684,463	$52,677,344	$49,767,632	$50,625,302	$ 50,038,808
Expenditures:					
Direction and supportive services	$ 1,032,744	$ 837,264	$ 942,668	$ 888,592	$ 901,917
Protection of persons and property	4,126,432	4,161,954	4,035,121	4,343,958	4,423,816
Health and human services	27,446,383	29,861,234	30,030,822	29,766,550	31,250,318
Public education	13,813,506	14,197,883	12,735,771	13,226,745	13,482,539
Recreation and cultural enrichment	291,412	243,606	242,218	234,799	260,837
Economic development	1,025,104	962,010	744,342	473,059	458,631
Transportation	59,121	48,003	42,962	14,396	52,672
Capital outlay	70,341	285,910	232,622	123,486	103,579
Debt service	526	-	26,325	25,479	25,108
Other Uses:					
Operating transfers out	1,049,269	1,023,268	1,096,921	1,215,358	1,211,097
TOTAL EXPENDITURES AND OTHER USES	$48,914,838	$51,621,132	$50,129,772	$50,312,422	$ 52,170,514
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	(230,375)	1,056,212	(362,140)	312,880	(2,131,706)
Fund Balance — End of Period	$ 284,803	$ 1,621,435	$ 1,259,295	$ 1,566,010	$ (566,038)
Components of Fund Balance					
Reserved for encumbrances	$ 806,181	-	-	-	-
Reserved for advances and other	913,303	-	-	-	-
Unreserved — designated	-	-	-	-	-
Unreserved — undesignated	(1,434,681)	-	-	-	-
Nonspendable	-	$ 123,156	$ 240,975	$ 223,930	$ 265,403
Restricted	-	756,141	-	76	45
Committed	-	1,063,613	1,276,671	1,334,872	1,119,470
Assigned	-	-	-	7,132	-
Unassigned deficit	-	(321,475)	(258,351)	-	(1,950,956)
TOTAL FUND BALANCE	$ 284,803	$ 1,621,435	$ 1,259,295	$ 1,566,010	$ (566,038)

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Reports for fiscal years ended June 30, 2010 through 2014.

Fiscal Year 2012 Financial Results

GAAP Basis. At June 30, 2012, the General Fund reported a fund balance of $1,259.3 million, a decrease of $362.1 million from the reported $1,621.4 million fund balance at June 30, 2011 reflecting the decline in program revenue as well as increases in expenditures for social service programs. On a net basis, total assets increased by $261.0 million to $11,100.9 million. Liabilities increased by $623.2 million to $9,841.6 million.

General Fund tax revenues increased overall by $693 million (2.68 percent) during the fiscal year ended June 30, 2012. This overall increase is attributable to all tax types except the Corporation taxes and Cigarette taxes, which decreased by $154 million and $23 million, respectively, from the prior fiscal year. Personal Income Taxes increased by 3.1 percent and Sales and Use Tax revenues increased by $363 million (4.4 percent) as the economy in the Commonwealth showed improvement. Tax collections during the fiscal year, before adding net tax accrual and subtracting tax refunds/credits, increased $306 million (3.1 percent). Corporation taxes decreased by $154 million, a decrease of 3.3 percent, due primarily to the continuing phase-out of the Capital Stock and Franchise tax. Reported Other taxes increased by $135 million, net, over the prior fiscal year.

Intergovernmental revenues decreased by $3,322 million, net, resulting primarily from the phase-out of Federal ARRA participation. Charges for sales and services revenues increased by $11 million, net, from the prior fiscal year. Combined licenses/fees/investment and other revenues increased by $186 million.

Total General Fund expenditures decreased by 2.9 percent during the fiscal year ended June 30, 2012, by over $1,500 million reflecting the phase-out of the Federal ARRA grants. The largest decline of Federal support was for education and economic development programs.

Public education expenditures decreased by a net $1,462 million, due primarily to the phase-out of Federally-funded (ARRA and the Education Jobs Fund) grants for basic education. Expenditures for economic development decreased $218 million from the prior year. Reported health and human services expenditures increased by $170 million. Direction and supportive services expenditures increased by $105 million, on a net basis, due primarily to an increase in expenditures for active employee healthcare.

As result of the Commonwealth's implementation of GASB Statement No. 54, the total reported fund balance of $1,259.3 million at June 30, 2012 included amounts that were formerly reported as part of Special Revenue funds.

Budgetary Basis. The subdued level of the economic recovery from the most recent national recession continued to affect the Commonwealth's revenue receipts during fiscal year 2012. General Fund revenues of the Commonwealth were below the certified estimate by $162.8 million or 0.6 percent during fiscal year 2012. Final Commonwealth General Fund revenues for the fiscal year totaled $27,678.0 million. Total fiscal year 2012 revenues, net of reserves for tax refunds and including public health and human services assessments, totaled $27,101.3 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were $27,534.4 million, resulting in a preliminary operating deficit for fiscal year 2012 of $433.3 million. However, after accounting for a positive fiscal year 2012 beginning balance of $1,072.8 million, the Commonwealth ended fiscal year 2012 with an unappropriated surplus balance of $659.0 million, which was the next largest (following the $1,072.8 million ending balance from fiscal year 2011) such unappropriated ending balance since prior to the 2001 recession.

General Fund revenues increased $180.8 million or 0.7 percent during fiscal year 2012 when measured on a year-over-year basis as compared to fiscal year 2011. Tax revenue collections grew $687.8 million or 2.6 percent on a year-over-year basis from fiscal year 2011 to fiscal year 2012 while non-tax revenue collections declined $507.2 million or 48.9 percent, primarily from a reduction in balance transfers from fiscal year 2011 to fiscal year 2012. Corporate tax receipts were $91.2 million lower than fiscal year 2011 levels. Year-over-year growth in corporate taxes was -3.1 percent during fiscal year 2012 as corporate net income tax collections decreased 5.1 percent and capital stock and franchise tax receipts increased 2.2 percent while collections from the gross receipts tax increased 8.6 percent on a year-over-year basis. Personal income taxes were $364.8 million above fiscal year 2011 actual collection and the year-over-year growth in personal income tax receipts was 3.5 percent. Personal income tax collections attributable to withholding increased by 3.5 percent or $282.9 million during fiscal year 2012 and tax collections from the non-withholding portion of the personal income tax increased 3.4 percent or $81.9 million on a year-over-year basis. Sales and use taxes receipts were $182.1 million greater during fiscal year 2012 than during the prior fiscal year, a growth rate of 2.1 percent. Sales tax collections increased during fiscal year 2012 as motor vehicle sales tax collections grew 9.2 percent and non-motor vehicle sales tax receipts increased 1.1 percent during fiscal year 2012. Cigarette tax collections declined 0.5 percent during fiscal year 2012 and inheritance tax collections grew 2.8 percent. Realty transfer tax revenues grew 4.7 percent during fiscal year 2012 after having declined in 2011. Non-tax revenues of the Commonwealth declined 48.9 percent during fiscal year 2012, due primarily to the decreased utilization of one-time revenues during the prior fiscal year. Reserves for tax refunds in fiscal year 2012 were $1,275 million, an increase of 10.9 percent from fiscal year 2011 reserve levels.

Fiscal year 2012 appropriations from Commonwealth revenues, including supplemental appropriations and net of appropriation lapses, totaled $27,534.4 million.

Commonwealth General Fund appropriations for fiscal year 2012 totaled $27,185.6 million, a decrease of $1,135.7 million or 4.0 percent from fiscal year 2011 levels. The Basic Education Funding subsidy to local school districts declined 7.3 percent from the prior year. Funding for higher education programs was reduced by approximately 20 percent. Commonwealth contributions to the Public School Employees Retirement System increased 108.7 percent from fiscal year 2011 levels. Spending for the Department of Corrections was held flat at fiscal year 2011 levels during fiscal year 2012 and medical assistance and human services spending decreased by $54.6 million or 0.5 percent during fiscal year 2012.

The ending unappropriated balance was $659.2 million for fiscal year 2012. As was done in fiscal year 2011, the statutory transfer of 25 percent of the Commonwealth's unappropriated surplus balance was suspended for one year.

Fiscal Year 2013 Financial Results

GAAP Basis. At June 30, 2013, the General Fund reported a fund balance of $1,566.0 million, a decrease of $312.9 million from the restated $1,253.1 million fund balance at June 30, 2012. Total assets increased $457.0 million to $11,556.9 million largely attributable to receivables in public welfare programs. A majority of the increase was due to the expansion of the Managed Care Organizations that increased the monthly outstanding balances due from the federal government. Liabilities increased by $150.9 million to $9,990.9 million. The increased liabilities were a consequence of payables activity related to the expansion of the Managed Care Organizations previously mentioned. Netting against this increase was a decrease in medical assistance paid to local education agencies.

Total revenues increased by $991 million reflecting an overall improvement in the economy. Personal income tax revenue was the largest contributing factor, increasing by $655 million. Corporation income tax also contributed to this positively by adding a $251 million year over year increase. Act 46 of 2010 created the Enhanced Revenue Collection Account which resulted in enhanced revenue collections and refunds avoided by expanding tax return review and tax collection activities. Both revenue streams were improved by Act 46.

Total General Fund expenditures and other uses increased by 0.4 percent during the fiscal year ended June 30, 2013, to $1,215.4 million. Total expenditures increased by a net of $65 million. The largest increases were in public education ($309 million) and protection of persons and property ($409 million) programs. The significant decreases were in economic development ($271 million), health and human services ($264 million) and capital outlay ($110 million) programs.

Reported health and human services expenditures declined by $264.3 million, mainly due to federal programs being phased out. There was a decrease in these programs from fiscal 2012 to fiscal 2013. Contributing to the decrease was a reduction of expenditures in the Women, Infants and Children Program, specifically a reduction of rebate expenses. Public education expenditures increased by $490.9 million, primarily with respect to increases in state subsidies and state contributions for school employee retirement contributions. Protection of persons and property expenditures increased by $309 million, largely due to an increase in the Commonwealth's employers' share of retirement contributions and grants to municipalities. Expenditures for economic development experienced a decrease in expenditures by $271.2 million, largely due to a phase out of the federal ARRA grants and a decrease in the state funded redevelopment assistance grants.

Budgetary Basis. General Fund revenues of the Commonwealth were above the certified estimate by $56.9 million or 0.2 percent for fiscal year 2013. Final Commonwealth General Fund revenues for the fiscal year totaled $28,646.9 million. Total fiscal year 2013 revenues, net of reserves for tax refunds and including public health and human services assessments, totaled $27,258.2 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were $27,717.3 million, resulting in a preliminary operating balance for fiscal year 2014 of $320.3 million. However, after taking into account a positive fiscal year 2013 beginning balance of $672.5 million, the Commonwealth ended fiscal year 2013 with an unappropriated surplus balance of $540.9 million. (See "Table 8").

General Fund revenues increased $968.9 million or 3.5 percent during fiscal year 2013 when measured on a year-over-year basis as compared to fiscal year 2012. Tax revenue collections grew $918.6 million or 3.4 percent on a year-over-year basis from fiscal year 2012 to fiscal year 2013 while non-tax revenue collections increased $50.3 million or 9.5 percent, primarily from an increase in escheats from fiscal year 2012 to fiscal year 2013. Corporate tax receipts were $226.0 million higher than fiscal year 2012 levels. Year-over-year growth in corporate taxes was 4.6 percent during fiscal year 2013 as corporate net income tax collections increased 19.8 percent and financial institutions tax increased 29.0 percent while collections from the capital stock and franchise tax decreased 28.1 percent on a year-over-year basis. Personal income taxes were $570.7 million above fiscal year 2012 actual collection and the year-over-year growth in personal income tax receipts was 5.3 percent. Personal income tax collections attributable to withholding increased by 2.7 percent or $226.6 million during fiscal year 2013 and tax collections from the non-withholding portion of the personal income tax increased 13.7 percent or $344.1 million on a year-over-year basis. Sales and use taxes receipts were $121.4 million greater during fiscal year 2013 than during the prior fiscal year, a growth rate of 1.4 percent. Sales tax collections increased during fiscal year 2012 as non-motor vehicle sales tax collections grew 1.5 percent and motor vehicle sales tax receipts increased 0.6 percent during fiscal year 2013. Cigarette tax collections declined 4.3 percent during fiscal year 2013 and inheritance tax collections grew 2.1 percent. Realty transfer tax revenues grew 15.9 percent during fiscal year 2013 – the strongest year of growth since the recession. Non-tax revenues of the Commonwealth increased 9.5 percent during fiscal year 2013, due primarily to large growth in escheats. Reserves for tax refunds in fiscal year 2012 were $1,275 million, an increase of 10.9 percent from fiscal year 2011 reserve levels.

A total of $188.7 million in appropriations were lapsed in fiscal year 2013, and the fiscal year 2013 budget contained a lower level of public health and human services assessments, $629.5 million, which were utilized to cover a portion of medical assistance and long-term care costs.

Commonwealth General Fund appropriations for fiscal year 2013 totaled $27,717.3 million, an increase of $686.7 million or 2.5 percent from fiscal year 2012 levels. The Basic Education Funding subsidy to local school districts increased $49 million (1 percent) from the prior year. Funding for higher education programs was reduced by approximately 20 percent. Commonwealth contributions to the Public School Employees Retirement System increased by $155.9 million, 30 percent from fiscal year 2012 levels. Growth in spending for the Department of Corrections was held to only a half percent increase, about $10 million over fiscal year 2012 levels. Department of Human Services spending increased by $117 million, about a 1 percent increase over fiscal year 2012.

The ending unappropriated balance was $540.9 million for fiscal year 2013. Again in June 2013, the statutory transfer of 25% of the Commonwealth's unappropriated balance was suspended for one year.

Fiscal Year 2014 Financial Results

GAAP Basis. At June 30, 2014, the General Fund reported a fund balance deficit of $566.0 million, a decrease to fund balance of $2,131.7 million from the restated $1,565.7 million fund balance at June 30, 2013 as expenditures and other uses increased by $1,858.1 million and revenues and other sources declined by $586.5 million.

Total revenues decreased by $622 million attributable to a decrease in corporate tax revenues as a result of the implementation of a new corporate tax system, decreased intergovernmental revenue related to lower federal grant revenues and a decrease in other income. Total General Fund expenditures increased $1,862 million. Health and human services increased $1,483 million and was due primarily to the expansion of contracts with managed care organizations and counties to provide health care services to medical assistance recipients. Increased expenditures for education occurred primarily with respect to increases in basic education funding and state contributions for school employee pension costs. Protection of persons and property programs experienced an increase largely due to an increase in the Commonwealth's employers' share of retirement contributions. This increase was offset by a decrease in contracted services within corrections programs and federally funded grant programs, particularly in emergency management services and environmental protection programs.

Budgetary Basis. The subdued level of economic recovery from the most recent national recession continued to impact the Commonwealth's revenue receipts during fiscal year 2014. General Fund revenues of the Commonwealth were below the certified estimate by $508.7 million or 1.7 percent during fiscal year 2014. Final Commonwealth General Fund revenues for the fiscal year totaled $28,607.1 million. Total fiscal year 2014 revenues, net of reserves for tax refunds and including public health and human services assessments, totaled $28,087.3 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were $28,395.4 million. After accounting for a positive fiscal year 2014 beginning balance of $546.9 million, the Commonwealth ended fiscal year 2014 with an unappropriated surplus balance of $80.6 million. (See "Table 8").

General Fund revenues decreased $39.7 million or 0.1 percent during fiscal year 2014 when measured on a year-over-year basis as compared to fiscal year 2013. Tax revenue collections increased $30.9 million or 0.1 percent on a year-over-year basis from fiscal year 2013 to fiscal year 2014 while non-tax revenue collections decreased $70.7 million or 12.2 percent from fiscal year 2013 to fiscal year 2014. Corporate tax receipts were $291.3 million lower than fiscal year 2013 levels. The year-over-year decrease in corporate taxes was 5.6 percent during fiscal year 2014 as corporate net income tax collections increased 3.2 percent and financial institutions tax decreased 9.6 percent while collections from the capital stock and franchise tax decreased 46.8 percent on a year-over-year basis. Personal income taxes were $66 million above fiscal year 2013 actual collection and the year-over-year growth in personal income tax receipts was 0.6 percent. Personal income tax collections attributable to withholding increased by 2.6 percent or $220.9 million during fiscal year 2014 and tax collections from the non-withholding portion of the personal income tax decreased 5.4 percent or $154.8 million on a year-over-year basis. Sales and use taxes receipts were $235.9 million greater during fiscal year 2014 than during the prior fiscal year, a growth rate of 2.7 percent. Sales tax collections increased during fiscal year 2014 as non-motor vehicle sales tax collections grew 2.1 percent and motor vehicle sales tax receipts increased 6 percent during fiscal year 2014. Cigarette tax collections declined 4.6 percent during fiscal year 2014 and inheritance tax collections grew 3.8 percent. Realty transfer tax revenues grew 10.8 percent during fiscal year 2014. Non-tax revenues of the Commonwealth decreased 12.2 percent during fiscal year 2014.

Commonwealth General Fund appropriations for fiscal year 2014 totaled $28,395.0 million, an increase of $678.1 million or 2.4 percent from fiscal year 2013 levels. The ending unappropriated balance was $80.6 million for fiscal year 2014. Again in June 2014, the statutory transfer of 25% of the Commonwealth's unappropriated balance was suspended for one year.

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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)

Sources:	**Actual Fiscal Year 2013**	**Actual Fiscal Year 2014**	**Enacted Budget Fiscal Year 2015**
Beginning Balance……………………………….	$ 672,581	$ 546,918	$ 80,631
Revenue Receipts….……………………………..	28,646,946	28,607,152	30,194,555
Revenue Changes..……………………………..			(14,000)
Refunds……………..……………………………	(1,250,000)	(1,105,000)	(1,225,000)
Public Health and Human Services Assessments[a]	736,764	810,444	1,066,717
Prior Year Lapses[c]……………………………….	188,684	426,604	0
Funds Available.....…………….…………….	$ 28,994,975	$ 29,286,118	$ 30,102,903
Uses:			
Appropriations……………………………………	$ 27,665,111	$ 28,423,469	$ 29,026,601
Supplemental Appropriations…………………….	65,463	173,132	0
Public Health and Human Services Assessments	736,764	810,444	1,066,171
Current Year Lapses……………………………..	(13,281)	(201,558)	0
Total Expenditures………………………….	$ 28,454,057	$ 29,205,487	$ 30,093,318
Preliminary Balance……………………………..	$ 540,918	$ 80,631	$ 9,585
Transfer to Budget Stabilization Fund…………..	0	0	(2,396)
Ending Unappropriated Balance……………	$ 540,918	$ 80,631	$ 7,189

(a) Only includes funds replacing Commonwealth funds. Fiscal year 2014 includes $214.833 million from a nursing home tax used to augment appropriated funds for long-term care. For fiscal year 2015, this number is $196.682 million. Fiscal year 2014 also includes $371.931 million from a tax imposed on managed care organizations. For fiscal year 2015 this number is $463.762 million and for fiscal year 2016 it is estimated at $588.916 million. Additionally, fiscal year 2014 includes $150.000 million from a Statewide Quality Care Assessment. For fiscal year 2015, this number is $150.000 million.

Fiscal Year 2015 Enacted Budget

The enacted fiscal year 2015 budget provides appropriations and executive authorizations, net of lapses and other reductions, totaling $29,026.6 million of Commonwealth funds against estimated revenues of $29,060.0 million, net of tax refunds and including public health and human services assessments of $813.6 million. Enacted General Fund appropriations represent an increase of $603.2 million, or 1.5 percent on a year-over-year basis, from fiscal year 2014. The budget document and related information is available on the Governor's Budget Office web page at www.budget.state.pa.us. Unless expressly noted, references to "estimates", "forecast" or similar terms with respect to the fiscal year 2015 enacted budget, do not reflect any mid-year updates.

The enacted budget does not include any tax increases and is $400 million less than the Governor's originally proposed February 2014 budget. The enacted budget includes increases for: 1) $100 million for the Ready to Learn Block Grant; 2) $10 million for Pre-K Counts; 3) $20 million for Special Education; 4) $13 million initiative to address the waiting list for Intellectual Disabilities Waiver; 5) $9 million to serve an additional 1,599 Persons with Disabilities and Attendant Care; 6) $2 million for Child Advocacy Centers; 7) a $1 million increase as part of Healthy PA initiative for Primary Health Care Practioner; and 8) $2 million increase as part of Healthy PA for Community-Based Health Care Subsidy.

The enacted fiscal year 2015 budget includes approximately $2 billion in one-time gap closing options that were used to balance the budget; these one-time options will not be available to help balance future budgets. The majority of the options used were: extraordinary lapses ($417 million), transfers from special funds ($333 million), payment delays ($394 million) and shifting costs to non-recurring sources ($503 million).

General Fund revenues for the fiscal year 2015 budget were forecast to grow 5.5 percent over fiscal year 2014 actual collections. Within the General Fund, year-over-year growth of 3.6 percent was forecast for tax revenues and an increase of over 100 percent ($500 million) for non-tax revenues. Corporate net income tax receipts were projected to decline slightly in fiscal year 2015 while the capital stock and franchise tax revenues were forecast to decline 15.9 percent due to the continued phase out. Gross Receipt tax collections were forecast to increase slightly at 1.9 percent growth. Overall, corporation taxes from all sources were projected to decline 0.4 percent in fiscal year 2015. Sales and use tax receipts were estimated to grow 3.8 percent on a year-over-year basis and personal income tax receipts were forecast to grow 5.2 percent during fiscal year 2015.

The fiscal year 2015 General Fund budget aimed to keep spending in line with available resources without raising taxes in Pennsylvania. The estimated year-end balance was expected to be approximately $1 million for fiscal year 2015.

Actual revenues to the General Fund through April 30, 2015 were approximately 2.3 percent above the fiscal year 2015 enacted budget estimate and General Fund collections totaled $25.7 billion, which is $569.1 million above the enacted budget estimate. Corporate tax revenue was $165.9 million, or 3.9 percent above the enacted budget estimate while Personal Income tax revenue was $57.8 million, or 0.6 percent above the enacted budget estimate. Expenditures through April 2015 were on track with enacted budget expectations.

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

Motor License Fund

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

Financial Results for Fiscal Years 2010-2014

GAAP Basis. The fund balance at June 30, 2014, of the Motor License Fund was $1,122.9 million, a $59.5 million (5.6 percent) increase from the June 30, 2013 fund balance. Over the five fiscal years 2010 through 2014, revenues and other sources averaged an annual 1.8 percent decrease. Expenditures and other uses during the same period averaged a 1.4 percent annual decrease.

Overall, total revenues and other sources increased by $252.8 million during the fiscal year ended June 30, 2014, a 4.9 percent increase from the prior fiscal year. Tax revenues increased $292 million during fiscal year 2014 primarily due to passage of Act 89 of 2013. Under Act 89, the average wholesale price of all taxable liquid fuels was raised to $1.87 from $1.25, effectively raising the gas tax per gallon by 9.5 cents and the diesel tax per gallon by 12.9 cents. The increase went into effect January 1, 2014. Licenses and fees revenues decreased $47 million primarily to Act 71 of 2013 redirecting fines, forfeitures and penalties for certain vehicle offenses from the Motor License Fund to the General Fund.

Total expenditures and other uses increased by $63.6 million during the fiscal year ended June 30, 2014; representing a 1.2 percent increase from the prior fiscal year. The Transportation and Capital Outlay expenditure net increase of $33 million relates to a number of factors. Personnel costs increased mostly due to an increase in personnel benefit costs. Funds moved from the Capital Facilities Fund for eligible bridge project expenses, as established by Act 96 of 2008, decreased, as those funds were exhausted, leaving the Motor License Fund to absorb additional costs in the fiscal year. These increases were offset by a decrease in overall expenditures in operational and highway project costs as funds were applied to cover increased personnel costs.

Table 9 sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the Motor License Fund for the fiscal years 2010 through 2014.

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

	Fiscal Year Ended June 30				
	2010	**2011**	**2012**	**2013**	**2014**
Fund Balance — Beginning of Period	$1,509,732	$1,661,421	$1,503,483	$1,192,998	$1,063,322
Restatements	-	-	-	-	-
Fund Balance — Beginning of Period, as Restated	$1,509,732	$1,661,421	$1,503,483	$1,192,998	$1,063,322
Revenues:					
Taxes	$2,045,505	$2,092,645	$2,096,222	$2,058,228	$2,349,983
Licenses and fees	851,164	899,208	913,660	920,536	873,949
Intergovernmental	2,649,613	1,791,466	1,917,064	1,935,313	1,948,619
Other revenues	240,767	234,845	145,264	185,050	196,285
Other Financing Sources:					
Operating transfers in	5,164	-	-	37,327	21,092
Other additions	-	111	-	714	-
TOTAL REVENUES AND OTHER SOURCES	$5,792,213	$5,018,275	$5,072,210	$5,137,168	$5,389,928
Expenditures:					
Direction and supportive services	$ 61,906	$ 50,624	$ 58,679	$ 31,593	$ 25,545
Protection of persons and property	647,735	669,213	707,229	743,349	781,151
Public education	811	689	595	459	316
Economic development	-	-	-	-	955
Recreation and cultural enrichment	3,263	3,421	3,855	901	1,677
Transportation	2,372,220	1,840,867	2,001,559	2,036,728	2,226,073
Capital outlay	2,502,788	2,548,674	2,542,787	2,384,372	2,228,241
Other Uses:					
Operating transfers out	51,801	62,725	67,991	69,442	66,440
TOTAL EXPENDITURES AND OTHER USES	$5,640,524	$5,176,213	$5,382,695	$5,266,844	$5,330,398
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	151,689	(157,938)	(310,485)	(129,676)	59,530
Fund Balance — End of Period	$1,661,421	$1,503,483	$1,192,998	$1,063,322	$1,122,852
Components of Fund Balance					
Reserved for encumbrances	$ 768,916	$ -	$ -	$ -	$ -
Reserved for advances and other	116,545	-	-	-	-
Unreserved - designated - highways	768,710	-	-	-	-
Unreserved - undesignated	7,250	-	-	-	-
Restricted	-	1,503,483	1,192,998	1,063,322	1,122,852
TOTAL FUND BALANCE	$1,661,421	$1,503,483	$1,192,998	$1,063,322	$1,122,852

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Reports for fiscal years ended June 30, 2010 through 2014.

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

Fiscal Year 2012 Financial Results

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled $2,414.4 million, a decrease of $107.2 million or 4.3 percent from fiscal year 2011 revenues. Receipts from liquid fuels taxes decreased by 1.2 percent while license and fee revenue increased by 0.1 percent. Other revenue receipts decreased by 27.6 percent during fiscal year 2012, due primarily to a decrease in one-time interest earnings that occurred during fiscal year 2011. Fiscal year 2012 Motor License Fund appropriations and executive authorizations totaled $2,614.8 million, an increase of 8.8 percent from fiscal year 2011. The Motor License Fund concluded fiscal year 2012 with an unappropriated surplus of $153.0 million, a net decrease of 51.9 percent. The net decrease in the unappropriated surplus was as result of expenditures exceeding available revenues by $200 million during fiscal year 2012.

Fiscal Year 2013 Financial Results

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled $ 2,416.2 million, an increase of $2.0 million or 0.1 percent from fiscal year 2012 revenues. Receipts from liquid fuels taxes decreased by 0.1 percent while license and fee revenue remained even with the previous year. Other revenue receipts increased by 1.0 percent over the previous fiscal year. Fiscal year 2013 Motor License Fund appropriations and executive authorizations totaled $2,503.0 million, a decrease of 4.3 percent from fiscal year 2012. The Motor License Fund concluded fiscal year 2013 with an unappropriated surplus of $107.5 million, a net decrease of 29.7 percent. The net decrease in the unappropriated surplus was as result of expenditures exceeding available revenues by $86.8 million during fiscal year 2013.

Fiscal Year 2014 Financial Results

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled $2,446.7 million, an increase of $30.5 million or 1.3 percent over fiscal year 2013 revenues. Receipts from liquid fuels taxes increased by 5.8 percent while license and fee revenue increased by 0.2 percent from the previous year. Other revenue receipts decreased by 14.0 percent over the previous fiscal year. Fiscal year 2014 Motor License Fund appropriations and executive authorizations totaled $2,502.5 million, a decrease of 0.02 percent from fiscal year 2013. The Motor License Fund concluded fiscal year 2014 with an unappropriated surplus of $105.6 million, a net decrease of 1.8 percent.

Fiscal Year 2015 Enacted Budget

Commonwealth revenues to the Motor License Fund are budgeted to be $2,527.9 million, an increase of $59.1 million or 2.4 percent over fiscal year 2014 revenues. Receipts from liquid fuels tax are budgeted to rise 17.7 percent over the prior year while license and fee revenues are budgeted to increase by 2.5 percent. Additionally, other revenue receipts are budgeted to decrease by 65.8 percent. Fiscal year 2015 Motor License Fund appropriations and executive authorizations, net of anticipated lapses, are budgeted to equal $2,653.3 million, an increase of 6.2 percent from fiscal year 2014 appropriations less lapses. The Motor License Fund is budgeted to conclude fiscal year 2015 with an unappropriated balance of $20.1 million, a reduction from the fiscal year 2014 unappropriated fund balance of $105.6 million. The Motor License Fund received $276.7 million for April 2015, $33.2 million above estimate. Fiscal year-to-date collections for the fund as of April 30, 2015 – which include the commonly known gas and diesel taxes, as well as other license, fine and fee revenues – total $2.2 billion, which is $131.7 million, or 6.4 percent, above estimate.

State Lottery Fund

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

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

Financial Results for Fiscal Years 2010-2014

GAAP Basis. During the fiscal year ended June 30, 2014, the net year over year increase in total revenues and other sources ($115.2 million) was primarily attributable to increased Lottery revenues ($101.7 million). The increase in sales and service revenues resulted from increased instant game sales during the fiscal year ended June 30, 2014. The Lottery's growth was largely driven by a 6.1% increase in instant games during the fiscal year ended June 30, 2014. Fiscal year 2014 marks the fourth year in a row that instant sales have grown by 6% or more. This has been driven mostly by growth in the $20 and above price points. The first $30 instant game was introduced during fiscal year 2014. Consumer appetite for the higher payout and higher top prize games continues to grow nationally as well as in Pennsylvania.

Table 10 sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the State Lottery Fund for fiscal years 2010 through 2014.

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

	Fiscal Year Ended June 30				
	2010	**2011**	**2012**	**2013**	**2014**
Net Assets - Beginning of Period	$ (144,537)	$ (166,238)	$ (118,585)	$ (68,858)	$ (135,106)
Revenues:					
Lottery revenues	3,051,640	3,206,588	3,476,663	3,699,186	3,800,883
Investment income	2,894	4,681	13,562	4,989	6,841
Other revenues	113,043	114,586	114,785	76,278	88,199
Other Financing Sources:					
Operating transfers in	176,700	165,900	164,100	166,800	166,500
TOTAL REVENUES AND OTHER SOURCES	$3,344,277	$3,491,755	$3,769,110	$3,947,253	$4,062,423
Expenditures:					
Operating expenses	$3,079,378	$3,036,434	$3,315,004	$3,621,866	$3,606,376
Depreciation and amortization		2,568	2,180	2,772	3,522
Other expenses	3	116,901	112,589	107,595	110,676
Other Uses:					
Operating transfers out	286,597	288,199	289,610	281,268	222,956
TOTAL EXPENDITURES AND OTHER USES	$3,365,978	$3,444,102	$3,719,383	$4,013,501	$3,943,530
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	(21,701)	47,653	49,727	(66,248)	118,893
Net Assets - End of Period	$ (166,238)	$ (118,585)	$ (68,858)	$ (135,106)	$ (16,213)
Components of Net Assets					
Invested in capital assets, net of debt	$ 8,576	$ 11,749	$ 16,083	$ 19,802	$ 26,229
Restricted for elderly programs	-	-	-	-	-
Deficit	(174,814)	(130,334)	(84,941)	(154,908)	(42,442)
TOTAL NET ASSETS	$ (166,238)	$ (118,585)	$ (68,858)	$ (135,106)	$ (16,213)

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Reports for fiscal years ended June 30, 2010 through 2014.

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

Fiscal Year 2012 Financial Results

Budgetary Basis. Fiscal year 2012 net revenues from lottery sources, including instant ticket sales and the State's participation in the multi-state Powerball game, increased 0.13%. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2012, were $1,706.4 million, while total appropriations, net of current year lapses, were $1,693.6 million. Additionally, fiscal year 2012 expenditures included a transfer of approximately $178.0 million in long-term care costs from the Commonwealth's General Fund to the State Lottery Fund. The fiscal year-end unappropriated balance and reserve was $263.3 million, an increase of 65.6 percent.

Fiscal Year 2013 Financial Results

Budgetary Basis. Fiscal year 2013 net revenues from lottery sources, including instant ticket sales and the State's participation in the multi-state Powerball game, increased by 4.1 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2013, were $1,776.5 million, while total appropriations, net of current year lapses, were $1,758.5 million. Additionally, fiscal year 2013 expenditures included a transfer of approximately $309.0 million in long-term care costs from the Commonwealth's General Fund to the State Lottery Fund. The fiscal year-end unappropriated balance and reserve was $236.1 million, a decrease of 10.3 percent.

Fiscal Year 2014 Financial Results

Budgetary Basis. Fiscal year 2014 net revenues from lottery sources, including instant ticket sales and the State's participation in the multi-state Powerball game, increased by 2.7 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2014, were $1,821.2 million, while total appropriations, net of current year lapses, were $1,882.7 million. Additionally, fiscal year 2014 expenditures included a transfer of approximately $169.0 million in long-term care costs from the Commonwealth's General Fund to the State Lottery Fund. The fiscal year-end unappropriated balance and reserve was $263.5 million, an increase of 11.5 percent.

Fiscal Year 2015 Enacted Budget

The enacted fiscal year 2015 budget anticipated a 4.4 percent increase in revenues from all lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game. Revenues of the State Lottery Fund were estimated to be $1,931.7 million in fiscal year 2015, an increase of $81.6 million. Budgeted Appropriations total $2,076.1 million, which represents an increase of $253.4 million or 13.9 percent from fiscal year 2014. The fiscal year-end balance is budgeted to total $44.1 million, a decrease of 76.6 percent from the 2014 ending balance.

See Appendix C for additional information on the budgetary process.

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 2010 through 2014 and as estimated with respect to the fiscal year 2015 enacted budget.

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Table 11
Commonwealth Revenues [(a)]
General Fund, Motor License Fund and State Lottery Fund - Unaudited
Fiscal Year 2010 – Fiscal Year 2014 and Fiscal Year 2015 Estimated *
(In Millions)

Fiscal Year Ended June 30

	2010	2011	2012	2013	2014	Estimated 2015
General Fund						
Tax Revenues:						
Sales and use	$ 8,029.2	$ 8,590.2	$ 8,772.3	$ 8,893.7	$ 9,129.6	$ 9,477.7
Personal income	9,968.7	10,435.7	10,800.5	11,371.2	11,437.3	12,032.8
Corporate (b)	2,552.2	2,950.8	2,859.6	3,025.7	2,821.8	2,770.5
Public utility (c)	1,326.2	1,259.6	1,358.7	1,350.2	1,316.3	1,342.1
Inheritance	753.8	805.2	827.7	845.3	877.4	934.5
Financial and insurance (d)	682.3	666.2	730.9	798.4	749.9	761.3
Cigarette	976.1	1,075.4	1,069.9	1,024.1	976.9	952.4
Realty transfer	296.0	279.2	292.2	338.7	375.4	447.5
Alcoholic beverages (e)	297.6	307.7	324.0	336.4	346.0	361.7
Other	27.9	22.0	112.7	83.5	67.3	42.2
TOTAL TAX REVENUES	$ 24,910.0	$ 26,392.0	$ 27,148.5	$ 28,067.2	$ 28,097.9	$ 29,122.7
Non-Tax Revenues:						
Liquor store profits	$ 105.0	$ 105.0	$ 80.0	$ 80.0	$ 80.0	$ 80.0
Licenses, fees and miscellaneous	2,606.7	915.9	383.0	444.3	358.1	924.8
Fines, penalties and interest	26.5	15.7	66.4	55.4	71.0	67.1
TOTAL NON-TAX REVENUES	$ 2,738.2	$ 1,036.6	$ 529.4	$ 579.7	$ 509.1	$ 1,071.9
TOTAL GENERAL FUND	$ 27,648.2	$ 27,428.6	$ 27,677.9	$ 28,646.9	$ 28,607.0	$ 30,194.6
Motor License Fund						
Tax Revenues:						
Liquid fuels	$ 548.9	$ 568.0	$ 561.4	$ 576.3	$ 627.6	$ 789.9
Fuels use	145.3	152.0	155.7	152.0	95.1	0.0
Oil company franchise	448.0	455.0	457.9	445.1	534.1	733.0
Motorbus & alt fuels	41.7	43.7	49.0	49.7	37.7	0.0
TOTAL TAX REVENUES	$ 1,183.9	$ 1,218.7	$ 1,224.0	$ 1,223.1	$ 1,294.5	$ 1,522.9
Non-Tax Revenues:						
Licenses and fees	$ 857.7	$ 891.6	$ 892.6	$ 892.5	$ 893.9	$ 916.6
Other and miscellaneous	599.5	411.1	297.6	300.6	258.4	88.4
TOTAL NON-TAX REVENUES	$ 1,457.2	$ 1,302.7	$ 1,190.2	$ 1,193.1	$ 1,152.3	$ 1,005.0
TOTAL MOTOR LICENSE FUND	$ 2,641.1	$ 2,521.4	$ 2,414.2	$ 2,416.2	$ 2,446.8	$ 2,527.9
State Lottery Fund						
Non-Tax Revenues:						
Lottery revenues	$ 1,332.6	$ 1,389.5	$ 1,515.4	$ 1,591.7	$ 1,652.2	$ 1,769.0
Other and miscellaneous	177.8	171.9	178.2	166.8	169.0	162.7
TOTAL NON-TAX REVENUES	$ 1,510.4	$ 1,561.4	$ 1,693.6	$ 1,758.5	$ 1,821.2	$ 1,931.7
TOTAL STATE LOTTERY FUND	$ 1,510.4	$ 1,561.4	$ 1,693.6	$ 1,758.5	$ 1,821.2	$ 1,931.7

Source: Office of the Budget. Totals may not add due to rounding.
(a) Budgetary basis including taxes and interest accrued but not deposited by the Commonwealth by June 30 of each fiscal year.
(b) Includes the corporate net income and the capital stock and franchise taxes.
(c) Includes the utility gross receipts and utility property taxes.
(d) Includes the financial institution and insurance premium taxes.
(e) Includes the liquor and malt beverage taxes.
* Data from fiscal year 2015 enacted budget.

Table 12 presents a comparison of the actual revenues on a budgetary basis to the official revenue estimate used for budget enactment for the General Fund and the Motor License Fund for fiscal years 2010 through 2014.

Table 12
Commonwealth Revenues — Official Estimate vs. Actual[(a)]
General Fund and Motor License Fund – Unaudited
Fiscal Year 2010 — Fiscal Year 2014
(In Millions)

	General Fund			Motor License Fund		
Fiscal Year Ended June 30	Official Estimate[(b)]	Actual	Variance	Official Estimate[(b)]	Actual	Variance
2010	$28,824.7	$27,648.2	($1,176.5)	$2,636.1	$2,641.1	$5.0
2011	26,711.7	27,497.2	785.5	2,323.6	2,521.3	197.7
2012	27,840.8	27,678.0	(162.8)	2,416.4	2,414.2	(2.2)
2013	28,590.0	28,646.9	56.9	2,397.0	2,416.2	19.2
2014	29,116.0	28,607.2	(508.8)	2,468.8	2,446.8	(22.0)

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

Tax Revenues (Unaudited Budgetary Basis)

Tax revenues constituted approximately 98.2 percent of Commonwealth revenues in the General Fund for the fiscal year ended June 30, 2014. The major tax sources for the General Fund of the Commonwealth are the personal income tax, the sales tax, the corporate net income tax, the gross receipts tax, and the cigarette tax. Together these five taxes produced 90.1 percent of General Fund tax revenues for the fiscal year ended June 30, 2014.

The major tax sources for the Motor License Fund are the liquid fuels tax and the oil company franchise tax. Together these taxes produced just over 47.5 percent of non-restricted Motor License Fund revenues in fiscal year 2014. 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.

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

Personal Income Tax. This tax accounted for $11,437.3 million or 40.0 percent of fiscal year 2014 General Fund Commonwealth revenues. The tax is levied at a flat rate on the taxable income of all residents and resident trusts and estates and taxable income attributable to Pennsylvania non-residents and non-resident estates and trusts. The current tax rate of 3.07 percent became effective on January 1, 2004. Credit against the tax is allowed for gross or net income taxes paid to other states by Pennsylvania residents.

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

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

Sales Tax. This tax accounted for $9,129.6 million or 31.9 percent of fiscal year 2014 General Fund Commonwealth revenues. The tax is levied at a rate of 6 percent on the sale, use, storage, rental or consumption of tangible personal property, cigarettes, and certain services, and upon the occupancy of hotel rooms. Substantial exemptions from the tax include clothing, food purchased in grocery stores or supermarkets, medical supplies, drugs, residential use of certain utilities, motor fuels, and machinery, equipment and items used in manufacturing, processing, farming or dairying, and utility service. The tax base was expanded in fiscal year 1992 to include a number of services not previously taxed. Beginning in fiscal year 2004, 0.947 percent of collections are transferred to a special fund for mass transit assistance. Beginning in fiscal year 2008 with the enactment of Act 44 of 2007, an additional 4.4 percent of receipts are transferred for transit assistance purposes.

Sales tax licensees reporting an actual tax liability equal to or greater than $100,000 for the third calendar quarter of the preceding year must make a payment of 50 percent of the tax liability for the same month of the previous year.

Sales tax licensees reporting an actual tax liability of at least $25,000 and less than $100,000 for the third calendar quarter of the preceding year are provided an option for their tax payment - 50 percent of the tax liability for the same month of the previous year or greater than 50 percent of the actual tax liability for the same month in the current year. This option is effective for tax returns due after September 30, 2012.

Corporate Net Income Tax. The Commonwealth received $2,501.6 million, or 8.7 percent of fiscal year 2014 General Fund Commonwealth revenues, from this tax. Domestic and foreign corporations are subject to the corporate net income tax for the privilege of doing business, carrying on activities, having capital or property employed or used in Pennsylvania, or owning property in Pennsylvania. Limited liability companies and business trusts that are classified as corporations for Federal income tax purposes are also subject to tax. Building and loan associations, banks, saving institutions, trust companies, insurance and surety companies, and nonprofit corporations are exempt from the tax. When less than the entire business of any corporation is transacted within the Commonwealth, the taxable income in Pennsylvania is determined by an apportionment formula. The current tax rate of 9.99 percent became effective for fiscal years beginning on or after January 1, 1995. The previous tax rate of 11.99 percent had been in effect since January 1, 1994.

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

Gross Receipts Tax. This tax accounted for $1,279.2 million, or 4.5 percent of fiscal year 2014 General Fund Commonwealth revenues. The gross receipts tax is levied on telephone, telegraph, and mobile telecommunications companies; electric light, water power, and hydroelectric companies; managed care organizations; and pipeline and miscellaneous transportation companies. Municipally owned or operated public utilities may exclude gross receipts derived from business done inside the limits of the municipality.

Beginning January 1, 2004, interstate and cellular telecommunications services became subject to the gross receipts tax. The tax rate is 50 mills, which became effective in July 1991, having been raised from its prior tax rate of 44 mills for all utilities except electric utilities, which are taxed at the rate of 59 mills. Revenue from 0.25 mills of the tax is deposited in the Alternative Fuels Incentive Grant Fund. All firms, except public utilities owned or operated by a municipality or a municipal authority, are required to file estimated revenue reports annually, together with the estimated payment of the current year's tax calculated by applying the current tax rate to 90 percent of the tax base for the current year or 100 percent of the liability two years prior, subject to the current rate. The adequacy of these payments is judged retrospectively based on the final return.

Effective for tax years after January 1, 2000, natural gas companies became exempt from the tax. The tax report and estimated payment are required to be made by March 15. The remaining tax is due and payable by the succeeding March 15.

Capital Stock and Franchise Taxes. These taxes generated $320.2 million for the Commonwealth in fiscal year 2014, or 1.1 percent of General Fund Commonwealth revenues. They are levied on the capital stock value of domestic and foreign corporations doing business or having property or capital employed in Pennsylvania on that portion of capital stock value apportionable to Pennsylvania under a statutory formula.

Capital stock and franchise tax estimated payments must exceed 90 percent of reported annual liability, or 100 percent of the liability two year's prior subject to the current rate. Under current law, the General Fund tax rate for tax years that began in fiscal year 2015 is 0.45 mills, having been reduced from 0.67 mills effective January 1, 2014. This tax is scheduled to be phased out for taxable years beginning after December 31, 2015 under legislation enacted in 2002 and amended in 2003, 2006, 2009, and 2013.

Cigarette Tax. Collections of this tax totaled $976.9 million in fiscal year 2014, or 3.4 percent of General Fund Commonwealth revenues. The tax is imposed and assessed on the sale or possession of cigarettes and little cigars within the Commonwealth. It is levied on the consumer but is collected by the sale of stamps and meter units to dealers who affix them to each package. The current rate is $1.60 per package of 20 cigarettes, which was increased by 25 cents in 2009. The 6 percent sales tax is also imposed on the retail sale of cigarettes and is included in the sales tax receipts. A portion of the collections from the tax are transferred to a special fund for children's health insurance and to a special fund for preserving farmland.

Inheritance and Estate Taxes. Collections of these taxes were $877.4 million in fiscal year 2014, or 3.1 percent of General Fund Commonwealth revenues. The inheritance tax is levied on the value of property transferred to heirs of a deceased person. Prior to July 1, 2000, the tax rate was 6 percent of the value, if passing to lineal heirs, and 15 percent if passing to collateral heirs. Effective July 1, 2000, the tax rate on transfers to parents, grandparents and lineal descendants was lowered to 4.5 percent and a new tax rate of 12 percent on transfers to siblings was established. The estate tax was a "pick-up" tax in the amount of the maximum federal tax credit less State death taxes paid. The federal estate tax credit was phased out between 2002 and 2005. As a result of the American Taxpayer Relief Act of 2012, the federal estate tax credit, and thus Pennsylvania's estate tax, will not return. Counties collect the inheritance and estate tax, which is due within nine months following the death of the person whose property is being transferred.

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

Estimated payments are due March 15th for the current taxable year and must exceed 90 percent of reported annual liability, or 100 percent of the liability two years prior, subject to the current rate. The adequacy of these payments is judged retrospectively based on the final return. Final payments and reports must be remitted together by April 15th of each year for the previous tax year.

Realty Transfer Tax. This tax is levied at the rate of 1 percent of the value of the real property transferred, as represented by deed, instrument or other writing. The tax is collected by the recorders of deeds in the counties and transmitted to the Commonwealth when collected. Beginning with fiscal year 2008, the transfer to the Keystone Recreation, Park and Conservation Fund of a portion of this tax is 15 percent after having changed several times over the past ten years.

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

Financial Institution Taxes. The bank shares tax is levied at the rate of 0.89 percent of the value of shares of state and national banks and domestic title insurance companies, beginning January 1, 2014. This is a reduction from the rate of 1.25 percent. Effective January 1, 2014, each institution computes the tax base on the most recent year-end value of the institution's total bank equity capital, adjusted to exclude the value of United States obligations. Previously, the tax base was computed by averaging an institution's total equity capital for each quarter, adjusted to exclude the value of United States obligations, for the previous six calendar years. Goodwill is also deducted from a bank's equity and total assets when computing the tax base. A payment of the tax for the current year is due by March 15th of that year. Revenues of this tax are deposited into the General Fund. The mutual thrift institutions tax is levied on the taxable net income of such institutions at the rate of 11.5 percent. Revenues of this tax accrue to the General Fund.

Mutual thrift institutions make quarterly estimated payments by applying the current tax rate to 100 percent of the tax base for the second preceding year, or by paying at least 90 percent of the reported annual liability for the current year. Final reports are due 105 days after the close of the fiscal year. Extensions are available for filing reports; however, no extensions are granted for payment of the tax.

Public Utility Realty Tax. The tax is levied on the state taxable value of utility real property belonging to a firm or other entity (i) furnishing utility service and (ii) regulated by the Pennsylvania Public Utility Commission or similar regulatory body. State taxable value is the current market value derived from assessed values for county real estate tax purposes. Certain items are specifically exempt from the tax. The tax rate for the General Fund portion of the tax is set annually by the Secretary of Revenue. The tax rate is to be set at a rate intended to produce revenues sufficient to reimburse local taxing authorities for foregone property tax revenues. An additional tax rate of 7.6 mills is applied to the tax base and remains in the General Fund. The tax is subject to a tentative payment of the then current year's tax liability. The tentative reports and tax payments are due in May. The remaining tax payments must be paid in September of the following year.

Malt Beverage Tax. This tax is levied on all malt or brewed beverages sold in Pennsylvania. The tax rate is 2/3 cent per half-pint, 1 cent per pint and $2.48 per barrel. The various manufacturers pay the tax monthly to the Department of Revenue. Revenues from this tax are deposited into the General Fund.

Liquid Fuels Tax. This tax accounted for $320.9 million, or 13.1 percent of Motor License Fund Commonwealth revenues in fiscal year 2014. It is an excise tax imposed upon all liquid fuels (primarily gasoline) used or sold within the Commonwealth. The tax is imposed upon and collected by the fuel distributor. After discounts, all monies collected are deposited in the Motor License Fund, except that an amount equal to one-half cent per gallon is deposited in the Liquid Fuels Tax Fund. Fuels sold and delivered to the U.S. government, the Commonwealth and any of its political subdivisions, public authorities, non-profit schools, volunteer fire companies, ambulance services, rescue squads, and fuels sold and delivered in interstate commerce are exempt from payment of the tax. In addition to these exemptions, reimbursement is made for fuels used for certain agricultural purposes. The rate of the liquid fuels tax is 12 cents per gallon. This tax was eliminated through legislation for liquid fuels sold on January 1, 2014 and thereafter.

Oil Company Franchise Tax. The non-restricted portion of this tax accounted for $840.7 million, or 34.4 percent of fiscal year 2014 Motor License Fund Commonwealth revenues. Through December 31, 2013, the tax rate was 153.5 mills on the revenue received from liquid fuels and 208.5 mills on the revenue received from fuels at the first sale of petroleum products in Pennsylvania used to fuel motor vehicles for public highway use. As of January 1, 2014, legislation added 64 mills in calendar year 2014, 49 mills in 2015, 48 mills in 2016, 41 mills in 2017, and 39 mills in 2018 and each year thereafter. Petroleum revenue is derived by multiplying total gallons of petroleum products by the average wholesale price of motor fuels as established by the Department of Revenue. As of January 1, 2014, the average wholesale price was set at $1.87 for calendar year 2014, $2.49 for 2015 and 2016, and uncapped thereafter with a statutory floor of $2.99. Prior to 2014, minimum and maximum average wholesale prices were statutorily set at $0.90 and $1.25 per gallon, respectively. In addition to the 57 mills from the liquid fuels and fuels rates being deposited in the non-restricted account, the additional mills added in 2014 and thereafter are also deposited in non-restricted accounts. The exception is that 4.17% of the mills added in 2014 and thereafter are transferred to the Liquid Fuels Tax Fund. The remainder of the oil company franchise tax is deposited in other restricted accounts. By law, portions of the tax are dedicated to certain highway purposes, including transfers to local governments for roads and highways. Exemptions from the tax are the same as those provided from the liquid fuels tax.

Fuels Tax. This tax accounted for $95.1 million, or 3.9 percent of fiscal year 2014 Motor License Fund Commonwealth revenues. It is an excise tax imposed on fuels (primarily diesel fuel) used or sold within the Commonwealth. The tax is imposed upon and collected by the distributor. After discounts, all monies collected are deposited in the Motor License Fund, except an amount equal to one-half cent per gallon is placed in the Liquid Fuels Tax Fund for distribution to local governments. The tax rate is 12 cents per gallon for fuel used in the Commonwealth. Exemptions from the tax are the same as those provided from the liquid fuels tax. This tax was eliminated through legislation for fuels sold on January 1, 2014 and thereafter.

Motor Carriers Road Tax. This tax accounted for $35.8 million, or 1.5 percent of fiscal year 2014 Motor License Fund Commonwealth revenues. This tax is levied on motor carrier vehicles having a gross weight in excess of 26,000 pounds. All monies collected are deposited in the Motor License Fund. Through December 31, 2013, the rate was 12 cents per gallon, plus an additional factor based on the oil company franchise tax for fuel used within the Commonwealth. Thereafter, the rate is based solely on the oil company franchise tax rate for fuel used within the Commonwealth. In May 1997, the tax rate was reduced by 6 cents, replaced by an additional 55 mills on fuels sold under the oil company franchise tax.

Non-Tax Revenues

Licenses and Fees. License and fee receipts in the General Fund for fiscal year 2014 totaled $109.3 million, representing 0.4 percent of Commonwealth revenues to the General Fund. Revenues from motor vehicle licenses and fees in fiscal 2014 were $893.9 million, representing 36.5 percent of total fiscal year 2014 Motor License Fund Commonwealth revenues.

Miscellaneous Revenue. Revenues from non-tax sources not categorized elsewhere are credited to miscellaneous revenues. Interest earnings on securities and deposits are included in this source. Miscellaneous revenues receipts in the General Fund for fiscal year 2014 totaled $248.8 million. Receipts from miscellaneous motor vehicle revenues in fiscal 2014 were $258.4 million, representing 10.6 percent of total fiscal year 2014 Motor License Fund Commonwealth revenues.

State Stores Fund Transfers. This is an amount determined by the Liquor Control Board to be available for transfer to the General Fund. The amount transferred for fiscal year 2014 was $80.0 million. In Pennsylvania, the distribution and sale of liquor is a state enterprise.

Fines, Penalties and Interest. This revenue source includes all fines, penalties and interest collected in the enforcement of non-tax regulations, such as moving violation surcharges. The amount deposited to the General Fund for fiscal year 2014 was $71.0 million.

Tobacco Settlement Payments. The Commonwealth's portion of payments made by cigarette manufacturers participating in the Tobacco MSA are deposited in the Tobacco Settlement Fund to be used for certain health-related programs. The Commonwealth anticipates receiving a total MSA payment of approximately $300 million in April 2015. See "COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES – Description of Funds."

Federal Revenues

Receipts by the Commonwealth in its General Fund, Motor License Fund, Tobacco Settlement Fund and State Lottery Fund from the federal government during fiscal year 2012 totaled $21.7 billion, while such federal receipts were $22.9 billion in fiscal year 2013. Receipts for fiscal year 2014 are $24.7 billion. Approximately $15.0 billion, or 69 percent of total federal revenue to the Commonwealth for fiscal year 2012, was attributable to public health and welfare programs, the largest of which are for the Medical Assistance and Temporary Assistance to Needy Families programs. In fiscal year 2013, $16.5 billion, or 71.8 percent of federal revenues, are attributable to these types of programs. In fiscal year 2014, approximately $18.3 billion or 74.4 percent of federal revenues is 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 2013 and fiscal year 2014 and the enacted budget for fiscal year 2015.

Education

In fiscal year 2013, expenditures from Commonwealth revenues for education purposes were more than $11.3 billion. For fiscal year 2014 Commonwealth expenditures included over $11.5 billion in expenditures from Commonwealth revenues for education purposes, an increase of 1.3 percent over fiscal year 2013. The enacted budget for fiscal year 2015 includes over $11.9 billion in education funding, an increase of approximately 3.5 percent over fiscal year 2014.

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 2015 maintains the state portion of the Basic Education subsidy at $5.52 billion. For fiscal year 2015, each school district is expected to receive an amount equal to its 2014 Basic Education Funding allocation. The increase in education funding will be distributed to qualifying 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 2013 were more than $9.6 billion, representing 85 percent of all Commonwealth expenditures for education in fiscal year 2013. Total Commonwealth expenditures for basic education programs in fiscal year 2014 were more than $9.8 billion, representing 85.2 percent of all Commonwealth expenditures for education in fiscal year 2014. The enacted budget for fiscal year 2015 includes more than $10.2 billion for basic education programs.

Table 13
Fall Enrollment in Pennsylvania Public and
Non-Public Elementary Schools and Secondary Schools
School Years 2010-2014
(In Thousands)

	School Year Ended June 30				
	2010	**2011**	**2012**	**2013**	**2014**
Elementary Schools					
Public	926	934	930	927	926
Nonpublic	173	171	166	161	160
Secondary Schools					
Public	852	845	833	828	824
Nonpublic	73	79	76	74	73
Total					
Public	1,778	1,779	1,763	1,755	1,750
Nonpublic	246	250	242	235	233
Total	2,024	2,029	2,005	1,990	1,983

Source: Pennsylvania Department of Education.

Higher Education. Higher education in Pennsylvania is provided through 271 degree-granting institutions, which include the fourteen universities of the State System of Higher Education (PASSHE), four State-related universities, community colleges, independent colleges and universities and specialized degree-granting institutions. PASSHE, created in 1982 from the fourteen state-owned colleges, is administered by a Board of Governors whose members are appointed by the governor and confirmed by the Senate. In fiscal year 2012, more than $1.6 billion was expended by the Commonwealth for institution and student financial assistance, in fiscal year 2013 more than $1.6 billion for higher education was expended, and in fiscal year 2014 more than $1.6 billion was expended.

Table 14
Full-Time Equivalent Enrollment at State-Supported Institutions of Higher Education School Years 2010-2014
(In Thousands)

	School Year Ended June 30				
	2010	**2011**	**2012**	**2013**	**2014**
State System of Higher Education .	110	112	110	107	105
State-Related Universities.............	156	158	157	161	162
Community Colleges	106	106	104	98	97
Total	**372**	**376**	**371**	**366**	**364**

Source: Governor's Executive Budget, various years.

Public Health and Human Services

Fiscal year 2014 public health and human services expenditures were $30,866 million and were projected to be $34,302 million in fiscal year 2015. For fiscal year 2016, $38,062 million is proposed for these purposes. With regard to fiscal year 2015 expenditures, $11,570 million is expected to be funded from the General Fund, while $12,194 million is estimated to be provided from the General Fund for fiscal year 2016. Federal funds are expected to increase by $3,104 million due to implementation of Medicaid expansion, and augmentations are expected to increase by $98.8 million for fiscal year 2016. 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 Governor's proposed fiscal year 2016 budget includes $312.1 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 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. The tobacco companies continue to adjust for the non-participating manufacturer (NPM) adjustment. Pennsylvania will continue arbitration with the tobacco companies until this issue is resolved. The Commonwealth's share of withheld Tobacco MSA funds currently totals over $340 million. For fiscal year 2015, receipts from the April 2015 payment were reduced by $43 million to reflect the continuation of the withhold and for fiscal year 2016, estimated receipts from the April 2016 payment are reduced by $44 million.

Programs providing temporary financial assistance and medical assistance comprise the largest portion of public health and human services expenditures. General Fund expenditures for these assistance programs by the Commonwealth amounted to $6,955 million in fiscal year 2014, while $7,019 million was budgeted from the General Fund for fiscal year 2015 and $7,290 million is proposed for fiscal year 2016. A nursing home assessment fee provided a General Fund offset (meaning a reduction in required General Fund appropriations) of $214.8 million in fiscal year 2014 and is expected to provide a $196.7 million offset in fiscal year 2015. In fiscal year 2016, the nursing home assessment offset is projected at $197.8 million. A Statewide managed care organization Gross Receipts Tax assessment provided a General Fund offset of $372 million in fiscal year 2014 and is expected to provide a $464 million offset in fiscal year 2015. In fiscal year 2016, the Statewide managed care organization Gross Receipts Tax assessment offset is projected at $589 million. In addition, a Statewide Quality Care assessment provided a $150 million offset in fiscal year 2014 and is expected to provide a $150 million offset in fiscal year 2015. In fiscal year 2016, the Statewide Quality Care assessment offset is projected at $150 million. In addition, for 2016, an additional $130 million in revenue maximization is proposed. For 2016 approximately 32.04 percent of the total cost of assistance to the economically needy will be supported by Commonwealth funds appropriated from the General Fund. The balance is provided from reimbursements by the federal government and through various program collection activities conducted by the Commonwealth.

Medical assistance continues to be a growing component of public health and human services expenditures. Despite implementation of Commonwealth initiatives to restrain costs, the program continues to grow due to an expanding caseload, technology improvements and general medical inflation. Expenditures for medical assistance increased during the period from fiscal years 2005 through 2015 by an average annual rate of 6.75 percent. Fiscal year 2015 expenditures from Commonwealth funds are projected to be $6,865 million and the proposed budget for fiscal year 2016 provides $7,052 million, an increase of 2.73 percent from the prior fiscal year. The 2016 budget expands Medicaid into a single consolidated system, closing the coverage gap for hundreds of thousands of working adults. Income maintenance cash assistance payments to families in transition to independence are estimated at $1,045 million for fiscal year 2015, of which $198.1 million is from the General Fund. The proposed budget for fiscal year 2016 includes a total of $1,001 million, for such purpose with $198.1 million to be provided from the General Fund. Cash assistance is time-limited and requires participation in work activities to maintain eligibility.

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 highway 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. Beginning in fiscal year 2015, the annual $200 million highway and bridge distribution by the Pennsylvania Turnpike Commission is being redirected to transit, resulting in annual distributions to mass transit of $450 million.

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

Total funding for the Commonwealth's highway and bridge program for fiscal year 2014 was $2.078 billion. The funding increased to $2.404 billion in fiscal year 2015 and is proposed in the Governor's budget proposal to increase to $2.683 billion in fiscal year 2016.

Support of highway and bridge expenditures by local governments through grants paid from the Motor License Fund and restricted revenues was $441 million in fiscal year 2014 and $509 million in fiscal year 2015. In fiscal year 2016, proposed grants to local governments are recommended to increase to $600 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 of 2013 increased funding and revenue sources for the Public Transportation Trust Fund. Revenues come from 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 2014, Commonwealth funding available for mass transit was $1.193 billion. Funding for mass transit was increased in fiscal year 2015 to $1.477 billion. The proposed fiscal year 2016 budget funding for mass transit, fueled in part by the proposed increased Sales and Use Tax revenues, is $1.644 billion.

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 beginning in fiscal year 2016, a portion of the Oil Company Franchise Tax. For fiscal year 2014, Commonwealth funding available for multimodal transportation was $27.8 million. The enacted fiscal year 2015 budget funding is $98.2 million and the Governor's proposed fiscal year 2016 budget is $138 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 2014, $10.4 million was expended from aviation restricted accounts. In fiscal year 2015, $10.4 million was available for such purposes. A total of $10.4 million is budgeted in the Governor's proposal for fiscal year 2016.

Act 89 of 2013, authorized the Pennsylvania Department of Transportation (department) to enter into transportation public-private partnerships ("P3"). The Rapid Bridge Replacement Project is a public-private partnership initiative to replace 558 bridges across Pennsylvania. In 2015, the department and the winning bidder (concessionaire) are entering into a concession agreement through which the concessionaire will design, construct and maintain the bridges. The P3 program costs is being funded by the concessionaire through bond proceeds. The bond purchase agreement was executed on February 24, 2015, and the sale of $721.485 million of related bonds by the Pennsylvania Economic Development Financing Authority closed on March 18, 2015. The department expects that it will make two types of payments under the concession agreement. These are "milestone payments" as construction milestones are achieved and "availability payments" with respect to completed bridges. The department will make milestone and availability payments from funds in the Motor License Fund.

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."

OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH

General

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

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

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Table 15
General Obligation Debt Outstanding [(a)]
Fiscal Years 2005-2014
(In Millions)

At June 30	General Obligation Debt Outstanding
2005	$6,747.4
2006	7,287.0
2007	7,834.0
2008	8,177.0
2009	8,653.7
2010	9,891.7
2011	9,872.1
2012	10,727.5
2013	10,860.3
2014	11,390.2

(a) Net of sinking fund balances.

Net outstanding general obligation debt totaled $11,390.2 million at June 30, 2014, an increase of $529.8 million from June 30, 2013. Over the 10-year period ended June 30, 2014, total net outstanding general obligation debt increased at an annual rate of 5.2 percent. Within the most recent 5-year period, in such period outstanding general obligation debt has increased at an annual rate of 5.6 percent.

General obligation debt for non-highway purposes of $10,658.2 million was outstanding on June 30, 2014. Outstanding debt for these purposes increased by a net $508.2 million since June 30, 2013. For the period ended June 30, 2014, the 10-year and 5-year average annual compound growth rate for total outstanding debt for non-highway purposes has been 4.7 percent and 4.9 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 $732.0 million on June 30, 2014, an increase of $21.6 million from June 30, 2013. Highway outstanding debt grew over the 10-year and 5-year periods ended June 30, 2014, at the annual average rates of 14.6 percent and 22.5 percent respectively. A previous decline in outstanding highway debt was due to the policy begun in 1980 of funding highway capital projects with current revenues except for very limited exceptions. However, beginning with 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 next page, shows selected debt ratios for the Commonwealth for fiscal year 2005 and for fiscal years 2010 through 2014. 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 2005 and 2010 through 2014

(In Millions)

	2005	2010	2011	2012	2013	2014
Net Outstanding Debt (Millions)						
General Obligation Debt(a)..	$ 6,747	$ 9,893	$ 9,872	$ 10,728	$ 10,860	$ 11,390
Lease Payment Obligations(b)..	108	1,871	2,210	2,249	2,493	2,401
Total...	$ 6,855	$ 11,764	$ 12,082	$ 12,977	$ 13,353	$ 13,791
% Increase (Decrease) over prior year...................................	-2.2%	17.7%	2.7%	7.4%	2.9%	3.3%
Population (Thousands)	12,418	12,711	12,743	12,763	12,763	12,763
Per Capita Debt..	$ 552	$ 925	$ 948	$ 1,017	$ 1,046	$ 1,081
Personal Income (Millions)..	$ 432,247	$ 514,352	$ 538,909	$ 556,692	$ 556,692	$ 556,692
Debt as a % of Personal Income..	1.6%	2.3%	2.2%	2.3%	2.4%	2.5%
Debt Service (Millions)(c)						
Highway Bonds(d)..	$ 33	$ 36	$ 46	$ 57	$ 52	$ 54
All Other Bonds..	766	996	1,129	1,146	1,223	1,232
Lease Payments...	12	92	127	137	156	155
Total..	$ 811	$ 1,124	$ 1,302	$ 1,340	$ 1,431	$ 1,441
Increase (Decrease) Over Prior Year	4.0%	4.6%	15.8%	2.9%	6.8%	0.7%
Cash Revenues (Million)[(e)]						
Motor License Fund..	$ 2,157	$ 2,641	$ 2,521	$ 2,414	$ 2,416	$ 2,447
General Fund..	24,309	27,648	27,497	27,678	28,647	28,607
Total..	$ 26,465	$ 30,289	$ 30,018	$ 30,092	$ 31,063	$ 31,054
% Increase (Decrease) over prior year..................................	6.2%	7.6%	(0.9%)	0.3%	3.2%	(0.0%)
Highway Bond Debt Service as a % of Motor License Fund Revenues..	1.5%	1.4%	1.8%	2.4%	2.2%	2.2%
All Other Bond Debt Service and Lease Payments as a % of General Fund Revenues...	3.2%	3.9%	4.6%	4.6%	4.8%	4.9%
Total Debt Service and Lease Payments as a % of Motor License and General Fund Revenues...	3.1%	3.7%	4.3%	4.5%	4.6%	4.6%

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

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General Obligation Debt Outstanding

As of June 30, 2014, the Commonwealth had the following amount of general obligation debt outstanding:

Table 17
General Obligation Debt Outstanding as of June 30, 2014[a]

(In Thousands)

	Debt Outstanding[b]	Less: Refunding Escrow[c]	Less: Sinking Fund[d]	Net Debt Outstanding
Capital Projects Debt:				
Capital Facilities Bonds	$ 7,445,600	$ (691,375)	$ (24,418)	$ 6,729,807
Highway Bonds(e)	731,200	-	-	731,200
Refunding Bonds(e)	2,652,839	-	-	2,652,839
Total Capital Projects Debt Outstanding	$ 10,829,639	$ (691,375)	$ (24,418)	$ 10,113,846
Electorate Approved Debt:				
PA Economic Revitalization Bonds	....	-	-	....
Land & Water Development Bonds	-	-	(18)	(18)
Nursing Home Loan Development Bonds	-	-	-	-
Volunteer Companies' Loan Bonds	-	-	-	-
Vietnam Veterans Compensation Bonds	-	-	-	-
Water Facilities Restoration-1981 Referendum	-	-	-	-
Pennvest—1988 Referendum Bonds	23,510	(15,670)	(2,199)	5,641
Pennvest—1992 Referendum Bonds	192,145	(14,200)	-	177,945
Agricultural Conservation Easement Bonds	-	-	-	-
Local Criminal Justice Bonds	1,960	(370)	(260)	1,330
Keystone Recreation, Parks & Conservation Bonds	-	-	-	-
Growing Greener Bonds	463,715	(71,240)	-	392,475
Water Supply and Wastewater Treatment Bonds	197,870	(30,650)	-	167,220
Persian Gulf Conflict Veterans	5,620	(760)	-	4,860
Water and Sewer Assistance	344,975	-	-	344,975
Total Electorate Approved Debt Outstanding	$ 1,229,795	$ (132,890)	$ (2,477)	$ 1,094,428
Other Bonded Debt:				
Disaster Relief Bonds	....	-	-	....
Refunding Bonds	181,906	-	-	181,906
Total Other Bonded Debt Outstanding	$ 181,906	....	-	$ 181,906
Total General Obligation Debt Outstanding	$ 12,241,340	$ (824,265)	$ (26,895)	$ 11,390,180

[a] Does not include any general obligation debt issued in fiscal year 2015, including the First Series of 2015 $1 billion issuance on February 12, 2015 or the Bonds described in this Official Statement.
[b] Accreted value of capital appreciation bonds included.
[c] Principal amount of bonds refunded to be paid from escrowed bond proceeds in State Treasurer escrow account.
[d] Funds already deposited in sinking funds.
[e] Outstanding Refunding Bonds in the principal amount of $775,000 have refunded prior bonds issued as Highway Bonds. Debt service on these Refunding Bonds remains payable from the Motor License Fund.

Debt service payable during each fiscal year on outstanding general obligation debt, net of refunding escrow amounts, as of June 30, 2014, for the years shown is set forth in Table 18 on the next page:

Table 18
General Obligation Bond Debt Service*

(In Thousands)

Fiscal Year Ending June 30	Principal	Interest	Total
2015	$732,545	$541,519	$1,274,064
2016	750,000	560,217	1,310,217
2017	740,730	518,371	1,259,101
2018	748,870	481,520	1,230,390
2019	761,310	443,044	1,204,354
2020	748,505	405,175	1,153,680
2021	745,470	369,811	1,115,281
2022	747,635	334,575	1,082,210
2023	717,445	299,619	1,017,064
2024	718,525	266,270	984,795
2025	682,585	231,994	914,579
2026	714,105	199,348	913,453
2027	686,255	164,222	850,477
2028	635,410	131,120	766,530
2029	564,715	101,550	666,265
2030	508,515	74,054	582,569
2031	382,095	50,257	432,352
2032	346,805	34,057	380,862
2033	236,015	19,928	255,943
2034	172,785	9,351	182,136
2035	76,755	3,070	79,825
Total	$12,417,075	$5,239,072	$17,656,147

Totals may not add due to rounding.
*Includes the First Series of 2015 $1 billion issuance but does not include the issuance of the Bonds or the refunding project to be accomplished utilizing proceeds of the First Refunding Series Bonds.

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 a constitutional limit on debt.

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

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

Other Bonded Debt. Debt issued to rehabilitate areas affected by disasters is authorized by specific legislation. Authorizing legislation has given issuance authority to 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.

Currently, the Commonwealth has no tax anticipation notes outstanding.

Line of Credit (General 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 General Fund expenses within the fiscal year (the "STIP Facility"). The Commonwealth drew $1.5 billion in cash in fiscal year 2014 to meet funding needs, and in fiscal year 2015 drew $1.5 billion. As of March 27, 2015, the Commonwealth repaid its entire $1.5 billion balance drawn in fiscal year 2015 pursuant to the STIP Facility and does not anticipate borrowing for short-term working capital purposes for the remainder of fiscal year 2015. All STIP Facility borrowings are repaid with interest within the 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 March 1, 2015, the Commonwealth had a zero borrowing 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.

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Projected Issuance of Long-Term Debt

Table 19 shows projected future issuance of new-money general obligation bonds (or bond anticipation notes) through fiscal year 2019 as currently estimated, based on current authorizations. Included in Table 19 are bonds expected to be issued under three bond referenda proposed by the Governor and enacted by the General Assembly in 2004, 2005 and 2008. Not included however, are bonds authorized under the economic stimulus program of the Commonwealth Financing Authority. Actual issuance of bonds will be affected by a number of economic and other factors and may vary significantly from the Table 19 projection.

Table 19
Projected General Obligation Bond Issuance and Principal Retirements
Fiscal Years 2015-2019[(a)]
(In Millions)

	Fiscal Year Ending June 30				
	2015	**2016**	**2017**	**2018**	**2019**
Capital Facilities[(b)]					
Buildings and Structures	$ 725	$ 600	$ 550	$ 565	$ 450
Furniture and Equipment	50	20	20	20	20
Transportation Assistance	175	175	175	175	175
Redevelopment Assistance	335	300	330	300	185
Flood Control	10	10	10	10	10
Highway and Bridge Projects	0	113	87	62	25
Special Purpose:					
Pennvest — 1988, 1992 & 2008 Referenda	26	0	0	0	0
Water and Wastewater Referendum[(a)]	0	0	15	15	8
Growing Greener II Referendum[(a)]	25	0	0	0	0
Total Projected Issuance	$ 1,346	$ 1,218	$ 1,187	$ 1,147	$ 873
Principal Retirement[(c)]	$ 732.5	$ 778.3	$ 798.3	$ 847.2	$ 900.2

Totals may not add due to rounding.
(a) As proposed in the fiscal year 2015 budget.
(b) Includes issuance for new projects and for projects previously authorized.
(c) 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 maximum annual debt service on its outstanding bonds in any succeeding calendar year. If there is a potential deficiency in the capital reserve fund or if funds are necessary to avoid default on interest, principal or sinking fund payments on bonds or notes of PHFA, the statute creating PHFA 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 December 31, 2014, PHFA had $3,203.2 million of revenue bonds outstanding.

Lease Financing

The Commonwealth, through several of its departments and agencies, leases various real property and equipment. Some leases and the lease payments thereunder are, with the Commonwealth's approval, pledged as security for debt obligations issued by certain public authorities or other entities within the state. All lease payments payable by Commonwealth departments and agencies are subject to and dependent upon an annual spending authorization 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 contains summary information on material obligations secured by lease payments of Commonwealth departments and agencies payable from the General Fund or other budgeted special funds.

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

Lessor	Purpose	Maximum Annual Lease Payment	Principal Amount Outstanding as of 12/31/2014	Final Maturity
Harristown Development Corporation	Office Space	$ 6,300	$ 15,490	May 1, 2025
Philadelphia Regional Port Authority	Port Facilities	4,505	23,885	Sept. 1, 2020
Sports & Exhibition Authority of Pittsburgh and Allegheny County	Public Auditorium	18,601	290,715	Nov. 1, 2039
CAFCO-PA Leasing I, LLC	Prison Facilities	3,769	5,490	June 1, 2016
NORESCO, LLC	Equipment	2,158	14,400	Oct. 1, 2026
NORESCO, LLC	Equipment	1,559	10,960	Oct. 1, 2027
NORESCO/Johnson Controls	Equipment	8,416	71,555	Apr. 1, 2027
Pennsylvania Economic Development Finance Authority	Convention Center	26,641	248,120	June 15, 2039
Pennsylvania Economic Development Finance Authority	Office Space	18,123	104,125	Mar. 1, 2034

The Harristown Development Corporation leases office space to the Commonwealth in the city of Harrisburg. Refunding certificates of participation in the principal amount of $17,025,000 were issued in May 2013, representing undivided rights in the lease payments by the Commonwealth to the Harristown Development Corporation for nearly one million square feet of office space occupied by Commonwealth departments and agencies since 1978.

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

In 2009, the Commonwealth executed an annually renewable lease purchase agreement with CAFCO-PA Leasing I, LLC, a Colorado limited liability company to assist the Commonwealth, acting through its Department of Correction, to acquire certain modular prison dormitory facilities. Certificates of participation in the amount of $19,300,000 were issued in December 2009. The certificates of participation are payable from lease payments made by the Commonwealth from 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. 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 $15,580,000 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 $86,850,000 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 $12,385,000 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.

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, PEDFA (defined below) issued lease revenue bonds in the principal amount of $107,360,000 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 2011, the actual amount appropriated to support the SEA debt service was $163,885.00; in fiscal year 2012 it was $96,470.00; in fiscal year 2013 it was $544,684.00; in fiscal year 2014 it was $736,853.00; and in fiscal year 2015 it was $625,131.15.

During April 2010, the SEA issued $17.36 million in additional Commonwealth Lease Revenue Bonds (the "Supplemental Arena Bonds") to complete the Arena. The Supplemental Arena Bonds do not constitute debt of the Commonwealth but are limited obligations of the SEA payable solely from the special revenues pledged 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 that was recently constructed. Such acquisition was financed through the issuance by PEDFA (defined below) of $281.075 million of revenue bonds (the "Convention Center Bonds"). The Commonwealth, the City of Philadelphia (the "City") and the Pennsylvania Convention Center Authority (the "Convention Center Authority") entered into an Operating Agreement (the "Operating Agreement") in connection with the issuance of the Convention Center Bonds and the acquisition of the Pennsylvania Convention Center which provides for the operation of the Pennsylvania Convention Center by the Convention Center Authority (which also leases the facility), for the City to make an annual payment of $15 million plus a percentage of its Hotel Room Rental Tax and Hospitality Promotion Tax revenues to support operations of the Pennsylvania Convention Center and for the Commonwealth to make payments to finance operating deficits and operating and capital reserve deposits of the Pennsylvania Convention Center and to pay debt service on the Convention Center Bonds. The Commonwealth also entered into a Grant Agreement (the "Grant Agreement") with PEDFA and U.S. Bank National Association, as trustee for the Convention Center Bonds, with respect to the obligations of the Commonwealth to make the payments required under the Operating Agreement and related amounts due with respect to the Pennsylvania Convention Center and the Convention Center Bonds.

The obligations of the Commonwealth under the Operating Agreement and the Grant Agreement do not create indebtedness of the Commonwealth but are payable from (1) funds available in the Gaming Economic Development and Tourism Fund and (2) other funds of the Commonwealth, subject to annual appropriation by the state legislature. Payments from the Gaming Economic Development and Tourism Fund of up to $64,000,000 per year for up to 30 years (but not exceeding $880 million in the aggregate) have been appropriated by the General Assembly (by Act 53 of 2007, ("Act 53")) 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 a number of other projects and could be appropriated to additional projects in the future. The Gaming Economic Development and Tourism Fund is funded with an assessment of five percent of the gross terminal revenue of all total wagers received by all slot machines in the Commonwealth less cash payments. 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

The Commonwealth Financing Authority (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 both for-profit and non-profit entities. The CFA's bonds and financings are to be secured by revenues and accounts of the CFA, including funds appropriated to CFA from general 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.

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

As part of the enactment process for the fiscal year 2009 budget, the General Assembly enacted and on July 9, 2008, the Governor signed into law Act 63 of 2008 ("Act 63") and Act 1 of Special Session 1 of 2008 ("Act 1"). Combined, these two acts provided the CFA with additional bond issuance authority of up to an additional $1,300 million. Act 63 of 2008 provides the CFA with authority to issue up to $800 million in limited obligation revenue bonds in order to fund water or sewer projects, storm water projects, flood control projects and high hazard unsafe dam projects. Act 63 also provides for the use of Pennsylvania Gaming and Economic Development and Tourism Fund revenues to support debt service costs associated with the $800 million in additional CFA debt authority. Act 1 provides the CFA with authority to issue up to $500 million in limited obligation revenue bonds to fund the development of alternative sources of energy. As of April 30, 2015, the CFA had issued $461.0 million in limited obligation revenue bonds authorized by Act 1. Further, the CFA had issued $757.0 million in limited obligation revenue bonds authorized by Act 63.

As of April 28, 2015, the CFA had $1,707.9 million in outstanding bond debt. With respect thereto, the Commonwealth's General Fund has been the appropriation source used to service approximately $980.5 million of such outstanding debt and the Pennsylvania Gaming and Economic Development and Tourism Fund has been the appropriation source used to service approximately $727.4 million of such outstanding debt. Including the effect of a recent refunding, CFA debt service for fiscal year 2015 is estimated to be $86.168 million (net of debt service in the estimated amount of $56.577 million supported by transfers from the Pennsylvania Gaming and Economic Development Tourism Fund (the "PA GEDTF Funds")). The Commonwealth's fiscal year 2015 enacted budget appropriated $77.755 million in funds from the Commonwealth's General Fund to the CFA. The appropriated amount, together with $8.672 million of funds required by state law to be transferred from the Pennsylvania Department of Environmental Protection to the CFA to support debt service on bonds issued pursuant to the Alternative Energy Investment Act (the "PA DEP Funds") and $56.577 million of PA GEDTF Funds, is sufficient for the CFA to meet its debt service obligations during the fiscal year ending June 30, 2015. The state law requiring the transfer of the PA DEP Funds to the CFA was enacted simultaneously with the enactment of the Commonwealth's budget for fiscal year 2015. With respect to future fiscal year budgets, additional appropriations from the General Fund for future debt service are expected to be requested each year by the Department of Community and Economic Development for inclusion in annual Executive Budget requests to the General Assembly.

Pensions and Retirement Systems

General Information

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

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

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

The Commonwealth's retirement programs are funded by contributions from both the employer and employee. The contribution rate for new PSERS members who enrolled in the pension plan on or after January 1, 2002 and before July 1, 2011 is 7.5 percent of compensation. The contribution rate for new PSERS members who enroll on or after July 1, 2011 is 7.5% or 10.3% depending upon elections made by each employee member. The contribution rates for PSERS members who enrolled prior to January 1, 2002 range from 5 percent to 7.5 percent of compensation, depending upon the date of commencement of employment and elections made by each employee member. The SERS' employee contribution rate is 6.25 percent for a majority of member employees. Interest on each employee's accumulated contributions is credited annually at a 4 percent rate mandated by state statute. Accumulated contributions plus interest credited are refundable to covered employees upon termination of their employment for most members hired before December 31, 2010, for SERS and before June 30, 2011, for PSERS.

Act 120 of 2010 and Commonwealth Contributions

On November 23, 2010, the Governor signed Act 120 of 2010 into law ("Act 120") to implement changes to the actuarial methodologies of both of the PSERS and the SERS pension plans. Act 120 also implemented employer contribution collars, set a minimum employer contribution rate, changed the retirement benefits for new employees and prohibited the use by the Commonwealth of pension obligation bonds, among other changes. In addition the Act proposed to amortize certain PSERS unfunded liability over 24 years and certain SERS unfunded liability over 30 years.

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

For PSERS, the employer's contribution is shared by the Commonwealth and the school districts. The Commonwealth remits its employer contribution portion to the school districts, which then remit the entire employer contributions (both school district and Commonwealth portions) to PSERS. The Commonwealth's contribution is appropriated annually from the General Fund to the Department of Education. In fiscal year 2008, the Commonwealth contributions to SERS and PSERS were $237.5 million and $451.2 million respectively, constituting 8.4 and 18 percent increases in the year-over-year contribution to SERS and PSERS. During fiscal year 2009, Commonwealth contributions to SERS and PSERS were $242.5 million and $360.6 million, a 2.1 percent increase and a 20.1 percent reduction respectively in year-over-year contributions. During fiscal year 2010, Commonwealth contributions totaled $262.5 million for SERS, an 8.2 percent increase in year-over-year contributions, and for PSERS $342.6 million, a 5.0 percent decrease in the year-over-year contributions. For fiscal year 2011, for SERS, the Commonwealth contribution was $300.4 million, a 14.4 percent increase, and for PSERS, $408.6 million, a 19.3 percent increase. For fiscal year 2012, the SERS Commonwealth contributions were $463.7 million, a 54.4 percent increase and for PSERS, $600.1 million, a 47 percent increase. For fiscal year 2013, the SERS Commonwealth contributions were $660.7 million, a 42.5 percent increase and PSERS' Commonwealth contributions were $856.1 million, a 43 percent increase, and for fiscal year 2014, PSERS' Commonwealth contributions were $949.3 million, an 11 percent increase. The Commonwealth's fiscal year 2015 SERS contributions are expected to be approximately $1.3 billion (93% of statutory ARC).

The Commonwealth's fiscal year 2015 PSERS contributions are expected to be approximately $2.8 billion (69% of statutory ARC). The PSERS 2015 contributions included a one-time transfer of approximately $225 million from the Tobacco Settlement Fund.

With respect to SERS, Commonwealth contributions were $660.7 million or 11.59 percent of payroll in fiscal year 2013 compared to anticipated contributions of $1,559.7 or 26.49 percent of payroll without collar restrictions. For fiscal year 2014, under Act 120 the Commonwealth's contribution was approximately $1 billion resulting in a rate of 16.05 percent as compared to 31.25 percent without collar restrictions. After 2014, the Commonwealth rates are expected to rise every year through fiscal year 2017 by the percentage increases as provided for in the collars. It will reach a maximum rate of 29.92 percent in fiscal year 2018 and then will decline slowly and not drop below 20 percent until fiscal year 2037.

Based on the 2009 valuations of the two retirement systems, Commonwealth contributions to both systems were projected to increase significantly in fiscal year 2012 based on pre-Act 120 provisions. Those increases were lowered in the near-term as a result of Act 120, but would continue to significantly rise over the next decade. For fiscal year 2014 the PSERS rate was 16.93% under the provisions of Act 120 compared to a pre-Act 120 rate of 32.32%. For fiscal year 2015 the PSERS rate is 21.40% under Act 120 compared to a pre-Act 120 rate of 33.83%. After 2015, under Act 120 employer rates are expected to rise in fiscal year 2016 by the 4.5 percentage increase provided by the collar and would reach a maximum rate of 33.27% in fiscal year 2035 and then drop below 20% and decrease for several years thereafter.

If these statutory provisions are not again amended by the General Assembly, Commonwealth and school district contribution rates and costs are projected to grow by a factor of three over the next few years, rising from $1.5 billion in fiscal year 2014 to over $4.3 billion in fiscal year 2017. Various bills and plans to amend the existing statutes have been discussed, proposed or introduced in the General Assembly, but not enacted. Such proposals have included proposals to provide for future employees a defined contribution plan (similar to 401(k) plans utilized in the private sector) and to again defer the escalation of the increased employer contribution rate which will tend to have the effect of lengthening the period of time necessary to fund the unfunded actuarial accrued liability for the pension plans.

The funding status of the SERS and PSERS pension plans has been among the factors cited by the rating agencies in their written analyses released in conjunction with their release of lowered ratings on the Commonwealth general obligation bonds.

Investment Performance

SERS returns for the calendar years 2010, 2011, 2012, and 2013 were 11.9 percent, 2.7 percent, 12.0 percent and 13.6 percent respectively. PSERS' fiscal years 2011, 2012, 2013 and 2014 investment performance was 20.37 percent, 3.43 percent, 7.96 percent, and 14.91 percent 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
(In Millions)

Year Ended June 30	Employer Contributions	Employee Contributions[(a)]	Net Investment Income (Loss)	Total Deductions From Plan Net Assets[(b)]	Net Assets[(c)]
2007……………..	$ 746	$ 855	$ 12,703	$ 4,371	$ 67,523
2008……………..	835	880	(1,776)	4,991	62,659
2009……………..	608	911	(16,198)	4,983	43,207
2010……………..	638	952	6,115	5,300	45,837
2011……………..	748	1,043	9,247	5,675	51,433
2012……………..	1,086	953	1,094	6,049	48,764
2013……………..	1,555	991	4,126	6,436	49,276
2014……………..	2,110	967	7,098	6,484	53,262

[(a)] PSERS no longer classifies member premiums to its Health Option Plans as Employee Contributions. Numbers have been adjusted for each year to reflect this change.
[(b)] Includes PSERS administrative expenses.
[(c)] 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. Major changes are: 1) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities previously included as notes to the government's financial statements); 2) full pension costs are 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. 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. PSERS also adopted GASB Statement No. 34 for the fiscal year beginning July 1, 2001 that requires the presentation of Management's Discussion and Analysis as required supplementary information preceding the financial statement.

Table 22
State Employees' Retirement Fund
(In Millions)

Year Ended December 31	Employer Contributions	Employee Contributions	Net Investment Income[a]	Total Deductions From Plan Net Assets[b]	Plan Net Assets[c]
2006	$ 196	$ 318	$ 4,730	$ 1,943	$ 32,053
2007	244	334	5,247	2,361	35,516
2008	235	337	(11,061)	2,231	22,796
2009	253	349	3,561	2,297	24,662
2010	273	349	3,076	2,474	25,886
2011	392	351	480	2,732	24,377
2012	566	348	2,794	2,696	25,389
2013	795	352	3,724	2,866	27,394

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

Actuarial Calculations and Unfunded Actuarial Accrued Liability

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

The Boards of PSERS and SERS periodically review their respective system actuarial assumptions with actuaries, investment consultants and staff and determine whether to make any prospective changes to these assumptions. Both Boards have recently adopted changes to their respective system actuarial assumptions. In January 2009, the PSERS Board of Trustees decreased PSERS' actuarial investment rate of return assumption from 8.5 percent to 8.25 percent, effective for the June 30, 2008 actuarial valuation, and further decreased the rate of return assumption from 8.25 percent to 8.0 percent for the June 30, 2009 valuation. In March 2011, the PSERS Board decreased the actuarial investment rate of return for a third time from 8.0 percent to 7.5 percent for the June 30, 2011 actuarial valuation based on a further reduction in the long term capital market rate of return assumptions of its investment consultant. In April 2009, the State Employees' Retirement Board decreased SERS' assumed rate of return on investments from 8.5 percent to 8.0 percent effective for the December 31, 2008 valuation. In May 2012, SERS' Board decreased the actuarial rate of return from 8.0 percent to 7.5 percent for the December 31, 2011 valuation. These changes to SERS' and PSERS' investment return assumptions conform to the median assumption used by public pension funds nationally.

Table 23
Unfunded Actuarial Accrued Liability
2005-2013
(In Millions)

Valuation Year Ended In	SERS[a]	PSERS[b]
2005.................................	$ 2,058	$ 10,007
2006.................................	2,216	12,163
2007.................................	914	9,438
2008.................................	3,801	9,924
2009.................................	5,592	15,739
2010.................................	9,736	19,699
2011.................................	14,664	26,499
2012.................................	17,753	29,533
2013………………………	17,900	32,599

[a] The fiscal year for SERS ends on December 31 of each year.
[b] The fiscal year for PSERS ends on June 30 of each year.

The funded ratios, on an actuarial value of assets basis, for PSERS and SERS were 63.8% and 59.2%, respectively as of their 2013 actuarial valuations. For PSERS, its funded ratios as of June 30, 2014 were 62.0% and approximately 57.4% on an actuarial and market value basis, respectively. The funded ratio, on a market value of assets basis, for SERS was 62.4% as of December 31, 2013.

The net increase in the unfunded actuarial accrued liability is attributable to legislative pension plan modifications to limit funding increases, to changes to the actuarial assumptions and to recent actual rates of return on pension fund investments being materially below the actuarially assumed rates.

For financial reporting purposes, both PSERS and SERS previously adopted the Governmental Accounting Standards Board's Statement No. 25. Statement No. 25 requires a specific method of accounting and financial reporting for defined benefit pension plans. Among other things, Statement No. 25 requires a comparison of employer contributions to "annual required contributions" ("ARC'). Independently audited financial statements for both PSERS and SERS, as of June 30, 2014 and December 31, 2013, respectively, provide this comparison for each of the fiscal years then ended as shown in the following tables. The PSERS and SERS audited financial statements and other data regarding the respective pension plans are available electronically at the following respective websites www.psers.state.pa.us and www.sers.pa.gov**.**

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

Public School Employees' Retirement Fund

Year Ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentages Contributed
2014	$ 3,410,373	$ 1,986,384*	58%
2013	3,110,429	1,434,815*	46
2012	2,629,244	1,001,140*	38
2011	2,436,602	646,560*	27
2010	1,928,278	527,212*	27
2009	1,761,295	503,277*	29
2008	1,852,238	753,532	41
2007	1,708,821	659,545	39
2006	1,328,373	456,878	34
2005	945,107	431,556	46

State Employees' Retirement Fund

Year Ended December 31	Annual Required Contributions	Actual Employer Contributions	Percentages Contributed
2013	$ 1,314,925	$ 794,911	60%
2012	1,044,632	565,621	54
2011	913,778	391,749	43
2010	866,822	273,083	31
2009	643,861	253,250	39
2008	584,248	235,288	40
2007	617,253	243,936	39
2006	584,745	196,420	36
2005	319,190	148,375	46
2004	105,229	106,703	100

(*) Net of purchase of service contributions

New Accounting Standards

On June 25, 2012, GASB approved Statement 67 (Plans) which replaces requirements of Statement 25 (effective for fiscal years beginning after June 15, 2013) and Statement 68 (Employers) which replaces the requirements of Statement 27 (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 and SERS with the first official valuation for calendar year ending 2014. Implementation of these GASB Statements will materially affect the financial data shown on PSERS and SERS audited financial statements.

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 46 percent), and by Federal, Other and Special Funds. Commonwealth costs for such benefits totaled $626 million in fiscal year 2011, $662 million in fiscal year 2012 and $629 million in fiscal year 2013. Fiscal year 2014 employer contributions for retiree health care are estimated at $699 million. Fiscal year 2015 employer contributions are expected to be approximately $815 million.

Summary of Commonwealth Actions to Control Retiree Health Care Costs

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

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

Governmental Accounting Standards Board Statement #45

On June 21, 2004, the Governmental Accounting Standards Board (GASB) released its Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions ("Statement No. 45").* Statement No. 45 establishes standards for the measurement, recognition and display in the financial reports of state and local governments of obligations to pay OPEBs, when provided separately from a pension plan, expense or expenditures and related liabilities. Under Statement No. 45, governments are required to: (i) measure the costs of benefits, and recognize other post-employment benefits expenses, on the accrual basis of accounting during periods that employees are providing service; (ii) provide information about the actuarial liabilities of promised benefits associated with past service and whether, or to what extent, those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer's future cash flows.

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

In fiscal year 2008, $60 million was transferred to the REHP Trust Account and $50.8 million was transferred to the RPSPP Trust Account from the pre-existing restricted receipt accounts. No additional transfers have been made to the trust accounts. At the end of fiscal year 2013, the combined balance in the trust accounts and restricted receipt accounts was $451 million.

The Commonwealth has retained the Hay Group, a national employee benefits consulting firm, to provide actuarial services for GASB 45 implementation and reporting. The Hay Group's 2012 OPEB valuation for the REHP and RPSPP programs is updated to reflect the following:

1. The combined unfunded actuarial accrued liability ("UAAL") as of June 30, 2013 was $16,271 million. The UAAL for the REHP was $13,152 million comprised of an actuarial accrued liability of $13,234 million less $82 million of plan assets. The UAAL for the RPSPP was $3,119 million comprised of an actuarial accrued liability of $3,188 million less $69 million of plan assets.
2. The annual required contribution ("ARC") for the fiscal year ended June 30, 2013 was $1,168 million. The REHP ARC was $865 million and the RPSPP ARC was $207 million.
3. The OPEB liability as of June 30, 2013 was $1,954 million consisting of $1,430 million for the REHP and $524 million for the RPSPP.

Unemployment Compensation

The Commonwealth, as of June 30, 2012, had $2,592.7 million in outstanding loans from the Federal Unemployment Account to the Pennsylvania Unemployment Compensation Fund (the "UC Fund").

The Commonwealth was one of 35 states that had exhausted its UC Fund balances during the most recent economic downturn. The federal loans, which began in March 2009, were needed to fund unemployment compensation benefits in excess of UC Fund receipts.

Under current federal law, such loans must be repaid by the states with interest. Under ARRA, a waiver of interest on federal loans was extended through the end of calendar year 2010. Beginning in January 2011, interest started to accrue on outstanding loan amounts. Pursuant to the Unemployment Compensation Law, for each year in which interest is due on federal loans the Department calculates an Interest Factor tax to be paid by Commonwealth employers on the first $8,000 in wages paid to each employee. The assigned Interest Factor rate was 0.44 percent for calendar year 2011 and 0.20 percent for calendar year 2012. In addition, federal law requires that employers in a state with an outstanding loan balance at the end of two consecutive years must pay additional federal unemployment taxes ("FUTA") to repay the principal of the loan. Initially this FUTA tax increase is 0.3 percent on the federal wage base of $7,000 and automatically increases by 0.3 percent each year that the loan remains outstanding.

Based on econometric assumptions and in the absence of legislative action to improve the UC Fund's solvency and address the federal debt, the Commonwealth anticipated that the UC Fund would continue to require federal loans to pay benefits through at least 2018 and projected that its outstanding loan balance would total $286 million by 2018. Mandatory loan repayments through increased FUTA taxes, which began in 2011, were expected to grow from $94 million that year to an estimated $854 million annually by 2018. Additional voluntary loan repayments from the UC Fund would likely decrease from an estimated $2,560 million in fiscal year 2011 to $176 million by fiscal year 2018 and the estimated interest on the outstanding UC Fund loans would drop from $101 million annually in fiscal year 2011 to $9 million by fiscal year 2018**.** It is important to note that these UC-related expenditures did not have any impact on the Commonwealth's General Fund. They are funded solely by federal taxes, the UC Fund and the Interest Factor assessment, none of which affect the revenues or expenditures of the General Fund.

To address these circumstances, on June 12, 2012 the Commonwealth amended its unemployment compensation law by enactment of Act 2012-60 (the "Act"), which among other things, authorized the issuance of up to $4,500 million of unemployment compensation bonds by the Department of Labor and Industry acting through the Pennsylvania Economic Development Financing Authority ("PEDFA"). The proceeds of such bonds, (the "UC Bonds") could be used to repay all outstanding loan advances, including interest, from the Federal Unemployment Account as well as to provide additional funding for the UC Fund. UC Bonds would be issued only if the Department of Labor and Industry determined that such issuance would result in a savings to Pennsylvania employers. A stable funding source, i.e. the Interest Factor tax (with a maximum rate not to exceed 1.1%) would finance the repayment of the UC Bonds.

Also, the Act includes a number of provisions intended to stabilize the UC Fund on an ongoing basis, including enhanced collections authority for the Department of Labor and Industry, a longer statute of limitations for collection of fault overpayments, an increase in the taxable wage base, closing of loopholes in eligibility requirements, and an amnesty program to give employers and claimants an incentive to pay UC debts.

Overall, the key provisions of Act 6 of 2011 and Act 60 of 2012 are estimated to produce average annual savings of $280 million per year for the UC Fund.

On July 25, 2012, PEDFA closed on a $3,185.0 million interim financing with Citibank to both fully repay the outstanding loan from the Federal Unemployment Account and to fund the continued payment of benefits for a period through the Fall of 2012. On October 18, 2012 and as permitted under the Act, PEDFA issued its $2,827.4 million Unemployment Compensation Revenue Bonds which are secured by certain assessments on contributing employers doing business in Pennsylvania. Proceeds of the UC Bonds were used to repay the Citibank interim financing. As a result of the Citibank interim financing and PEDFA's issuance of its UC Bonds, the Commonwealth estimates that it will save employers an estimated $89 million as compared to repaying the previously existing federal advances through increased FUTA taxes with interest at the federal rate.

GOVERNMENT AUTHORITIES AND OTHER ORGANIZATIONS

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

Delaware River Joint Toll Bridge Commission ("DRJTBC"). The DRJTBC, a public corporation of the Commonwealth and New Jersey, owns and operates bridges across the Delaware River. Debt service on bonds is paid from tolls and other revenues of the Commission. The DRJTBC had $329.3 million in bonds outstanding as of December 31, 2014.

Delaware River Port Authority ("DRPA"). The DRPA, a public corporation of the Commonwealth and New Jersey, operates several toll bridges over the Delaware River, and promotes the use of the Philadelphia-Camden port and promotes economic development in the port district. Debt service on bonds is paid from toll revenues and other revenues pledged by DRPA to repayment of bonds. The DRPA had $1,584.9 million in revenue bond debt outstanding as of December 31, 2014.

Pennsylvania Economic Development Financing Authority ("PEDFA"). The PEDFA was created in 1987 to offer pooled bond and other bond issues for both taxable and tax-exempt bonds on behalf of local industrial and commercial development authorities for economic development projects. Bonds may be secured by loan repayments and all other revenues of the PEDFA. The PEDFA had $6,030.9 million of debt outstanding as of December 31, 2014, including the UC Bonds.

Pennsylvania Energy Development Authority ("PEDA"). The PEDA was created in 1982 to finance energy research projects, demonstration projects promoting the production or conservation of energy and the promotion, utilization and transportation of Pennsylvania energy resources. The authority's funding is from appropriations and project revenues. Debt service on bonds is paid from project revenues and other revenues pledged by PEDA to repayment of bonds. The PEDA had no bonds outstanding as of December 31, 2014.

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 $6,995.8 million in bonds outstanding as of December 31, 2014.

Pennsylvania Higher Educational Facilities Authority ("PHEFA"). The PHEFA is a public corporation of the Commonwealth established to finance college facilities. As of December 31, 2014, the PHEFA had $6,643.9 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 $216.1 million in revenue bond debt outstanding on December 31, 2014, to which all of its revenues are pledged.

Pennsylvania Infrastructure Investment Authority ("Pennvest"). Pennvest was created in 1988 to provide low-interest rate loans and grants for the purpose of constructing new and improving existing water supply and sewage disposal systems to protect the health and safety of the citizens of the Commonwealth and to promote economic development within the Commonwealth. Loans and grants are available to local governments and, in certain circumstances, to private companies. The Pennvest bonds are secured by principal repayments and interest payments on Pennvest loans. Pennvest had $1.6 million of revenue bonds outstanding as of December 31, 2014.

Pennsylvania Turnpike Commission ("PTC"). The PTC operates the Pennsylvania Turnpike System ("System"). Its outstanding indebtedness, $9,653.8 million as of December 31, 2014, is payable from the net revenues of the System, primarily toll revenues and rentals from leases and concessions or from certain taxes dedicated to the System.

State Public School Building Authority ("SPSBA"). The SPSBA finances public school projects and community 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 $3,177.9 million of revenue bonds outstanding as of December 31, 2014.

CITY OF PHILADELPHIA – PICA

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created by Commonwealth legislation in 1991 to assist the City of Philadelphia, the Commonwealth's largest city, in remedying its fiscal emergencies. PICA is authorized to provide assistance through the issuance of debt and to make factual findings and recommendations to Philadelphia concerning its budgetary and fiscal affairs. This financial assistance has included grants used by the City for defeasance of certain City general obligation bonds, funding of capital projects, and the liquidation of the cumulative general fund deficit of the City of Philadelphia, as of June 30, 1992, of $224.9 million. At this time, Philadelphia is operating under a five-year financial plan covering fiscal years 2015 through 2019. A plan was approved by PICA on July 21, 2014 and a revised five-year financial plan was approved on October 14, 2014.

No further bonds may be issued by PICA for the purpose of financing capital projects or an operating deficit, as the authority for such bond issuance expired December 31, 1994. PICA's authority to issue debt for the purpose of financing a cash flow deficit expired on December 31, 1996. Its ability to refund existing outstanding debt is unrestricted. PICA had $365.6 million in special tax revenue bonds outstanding as of June 30, 2014. Neither the taxing power nor the credit of the Commonwealth is pledged to pay debt service on PICA's bonds.

LITIGATION

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

In 1978, the General Assembly approved a limited waiver of sovereign immunity with respect to lawsuits against the Commonwealth. This cap does not apply to tax appeals, such as *Northbrook* (now *Allstate*) as detailed below. Damages for any loss are limited to $250,000 for each person and $1,000,000 for each accident. The Supreme Court of Pennsylvania has held that this limitation is constitutional. Approximately 3,150 suits against the Commonwealth remain open. Tort claim payments for the departments and agencies, other than the Department of Transportation, are paid from departmental and agency operating and program appropriations. Tort claim payments for the Department of Transportation are paid from an appropriation from the Motor License Fund. The Commonwealth also represents and indemnifies employees who have been sued under Federal civil rights statutes for actions taken in good faith in carrying out their employment responsibilities. There are no caps on damages in civil rights actions. The

Commonwealth's self insurance program covers damages in these cases up to $250,000 per incident. Damages in excess of $250,000 are paid from departmental and agency operating and program appropriations.

***Northbrook Life Insurance Co. v. Commonwealth* (now *Allstate Life Insurance Co. v. Commonwealth*)**

The *Northbrook* case was the lead case in litigation with potentially the entire insurance industry that does business in Pennsylvania. On January 26, 2006, the *en banc* Commonwealth Court issued a decision in which the majority partially ruled for both parties. *Northbrook Life Ins. Co. v. Commonwealth*, 890 A.2d 1223 (Pa. Commw. Ct. 2006). Both parties filed exceptions. The Court denied all exceptions and upheld its earlier decision. Northbrook filed an appeal to the Pennsylvania Supreme Court. The Supreme Court ruled in Northbrook's favor, but only on a technicality. *See Northbrook Life Ins. Co. v. Commonwealth*, 597 Pa. 18, 949 A.2d 333 (2008). The Court did not address the substantive findings of the Commonwealth Court.

Counsel then selected the *Allstate* case to relitigate the issues involved. *Northbrook* (now *Allstate*) and other pending cases challenged the Department of Revenue's application of portions of the Life and Health Guaranty Association Act of 1982 (the "Guaranty Act"). The Guaranty Act establishes a funding mechanism to fulfill defaulted obligations of insurance companies under life and health insurance policies and annuities contracts to insured Pennsylvania residents. In accordance with this funding mechanism, other insurance companies are assessed to provide the funds due to Pennsylvania residents insured by insurance companies which have become insolvent or are otherwise in default to their insureds.

Because the assessed insurance companies are paying the insurance obligations of other companies, a provision was placed in the Guaranty Act that allows assessed insurance companies to claim a credit against their gross premiums tax liability based on such assessments. The assessments on each company are broken into various categories, including life insurance assessments, health insurance assessments, and annuity assessments, based on the type and amount of business each company transacts in Pennsylvania.

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

On March 25, 2010, by a 3-2 vote, an *en banc* panel of the Commonwealth Court ruled that Allstate was entitled to claim a credit for all annuity assessments paid to the Guaranty Fund. *See Allstate Life Ins. Co. v. Commonwealth*, 992 A.2d 910 (Pa. Commw. Ct. 2010). The Commonwealth filed exceptions. Following briefing and oral argument before a seven-judge *en banc* Commonwealth Court panel, a 4-3 majority of the Court on October 15, 2010, issued an unreported decision overruling the Commonwealth's exceptions. *See Allstate Life Ins. Co. v. Commonwealth*, No. 89 F.R. 1997, 2010 Pa. Commw. Unpub. LEXIS 704 (2010).

The Commonwealth appealed to the Pennsylvania Supreme Court. On August 2, 2012, an evenly divided court affirmed the final order of the Commonwealth Court. *See Allstate Life Ins. Co. v. Commonwealth*, 52 A.3d 1077 (Pa. 2012). On August 16, 2012, the Commonwealth filed an Application for Reargument. On October 24, 2012, the Pennsylvania Supreme Court denied the Commonwealth's Application for Reargument.

The Commonwealth asserted the position that the evenly divided holding in this case is final and binding precedent only as to the petitioner Allstate Life Insurance Co. for the tax period involved in the *Allstate* case and notified counsel for the cases that were held at either of the administrative boards or in Commonwealth Court pending a final decision in the *Allstate* matter ("pending cases") that it wished to select a new case to re-litigate the issues with the objective of obtaining a final majority decision on the merits.

Thereafter, under docket of the pending cases in Commonwealth Court, petitioners' counsel filed with the Court an application for special and/or summary relief, and declaratory relief seeking an order and declaratory judgment from the Court among other things, to enforce the evenly divided decision as to all petitioners granting annuity assessments full tax credit against their gross premiums tax. The Commonwealth filed an answer and new matter seeking an order from the Court, among other things, to deny the petitioners' request for declaratory judgment and to direct the parties to proceed with litigation of a new case. Following briefing and argument, the Court issued an Order requiring the petitioners to identify all cases that are controlled by the *Allstate* decision and the Commonwealth to agree or to provide reasoning why not. Simply put, the petitioners believe that all cases pending are controlled by *Allstate* and the Commonwealth's position is that none are. The Commonwealth's position is not well viewed by the Court.

The Court is somewhat sternly steering the Commonwealth towards resolution of the pending cases and away from further litigation over the issue. Were the Commonwealth to pursue further litigation, it is certain the Court would issue an adverse decision forcing the Commonwealth to further appeal to the Pennsylvania Supreme Court. There is no way to predict the outcome before the Supreme Court on what would now be a third round of litigating the issue. Since on the last round, the Supreme Court decided the issue in favor of the petitioners and thereafter denied the Commonwealth's request for reargument, it is more likely than not that its decision on a third round would be unfavorable as well.

Commonwealth Court has ordered the petitioners to provide to the Commonwealth their calculations for relief in the first group of cases by a date certain and the Commonwealth's response by a date certain. Any disagreements will be heard by the Court. The petitioners have provided to the Commonwealth their calculations of the proper credit they contend is due on the first group of cases and the Commonwealth was required to respond by October 14, 2014. Once all the calculations are provided, the Commonwealth will be in a better position to determine the extent of the potential liability, which may not be as large as was originally anticipated.

The MCARE Case (PA Supreme Court)

On April 15, 2010, the Commonwealth Court of Pennsylvania in *Hosp. & Healthsystem Ass'n of Pa. v. Commonwealth*, 997 A.2d 392 (Pa. Commw. Ct. 2010) (the "MCARE Case"), held that legislation causing the Commonwealth to transfer $100 million from the Medical Care Availability and Reduction of Error ("MCARE") Fund to the General Fund was unlawful in that it violated the petitioners' vested rights in that money. On September 26, 2013, the Supreme Court of Pennsylvania reversed and remanded to Commonwealth Court, with instructions to conduct further proceedings. *See Hosp. & Health System Ass'n of Pa v. Commonwealth*, 77 A 3d 587 (Pa. 2013). The case remains pending in Commonwealth Court but has been stayed pending disposition of a separate appeal pending in the Supreme Court of Pennsylvania.

The MCARE Fund is a special fund, established within the Treasury pursuant to Act 13 of 2002, that pays claims against health providers for losses or damages awarded in medical professional liability actions in excess of their basic insurance coverage. All health care providers in Pennsylvania are required to pay annual assessments to the MCARE Fund. As part of the fiscal year 2010 budget legislation, the General Assembly transferred $100 million from the MCARE Fund to the General Fund. The Commonwealth Court held that this transfer was unlawful in that it violated the petitioners' vested rights in that money.

Reversing the Commonwealth Court, the Supreme Court on September 26, 2013, remanded the cases for a determination of whether the $100 million that the General Assembly transferred from the MCARE Fund to the General Fund in 2009 constituted surplus MCARE Fund monies that the General Assembly constitutionally could use for non-MCARE purposes. The Supreme Court also held that the MCARE Fund is protected by the vested rights doctrine and that, if the 2009 legislation that transferred the $100 million from the MCARE Fund to the General Fund violated the health care providers' vested rights, then the State Treasurer would be required to transfer $100 million from the General Fund to the MCARE Fund. Lastly, remand proceedings in Commonwealth Court were stayed until the Supreme Court has decided a related matter pending on appeal from Commonwealth Court at No. 5 MAP 2014. *See Hosp. & Healthsystem Ass'n of Pa. v. Ins. Comm'r,* 85 A.3d 479 (Pa. 2014) (allowing the Insurance Commissioner to appeal Commonwealth Court's ruling that the MCARE Act requires the Insurance Commissioner to assume a "spend down" of any balance in the MCARE Fund in calculating annual provider assessments).

On October 16, 2014, Governor Corbett announced that the Commonwealth entered into an agreement with the Pennsylvania Medical Society, The Hospital & Healthsystem Association of Pennsylvania, and the Pennsylvania

Podiatric Medical Association that settles all of these lawsuits. The settlement agreement provides that: health care providers will be reimbursed approximately $139 million from an Assessment Relief Fund representing a portion of their assessment payments in 2009-2012 and 2014, with the refunds to be available after April 2016; a new formula will be used to calculate MCARE assessments starting in 2015; and, the Commonwealth will retain the $100 million that was transferred from the MCARE Fund to the General Fund. The financial effect of the settlement will be fully borne by the MCARE Fund. The General Fund will not bear any of the financial impact of this settlement.

***Harlee Manor, Inc.*, et al. *v. Dept. of Public Welfare,* et al. (Pa Commw. Ct.)**

In the Harlee Manor lawsuit, three nursing facilities filed a lawsuit against the Department of Public Welfare (now the Department of Human Services) to challenge the Commonwealth's Nursing Facility Assessment Program ("the Program"). Under the Program, the Commonwealth assesses all licensed nursing facilities and uses the proceeds of the assessments to fund Medical Assistance ("MA") payments to MA-participating nursing facilities. The Program has two assessment rates, and the litigants paid their assessments at the higher of the two rates. The three nursing facilities' lawsuit challenged the Program on constitutional grounds. The Commonwealth settled the lawsuit by allowing the litigants to pay their assessments at the lower assessment rate. The Commonwealth submitted the proposed settlement to the federal Centers for Medicare and Medicaid Services ("CMS") for approval to ensure that the Commonwealth would remain eligible to receive federal matching funds if the settlement was approved by the court. CMS approved the proposed settlement, and the court thereafter dismissed the lawsuit pursuant to the settlement agreement.

***Sears,* et al. *v. Corbett,* et al.; and *Weisblatt,* et al. *v. Corbett,* et al. (Pa. Commw. Ct.)**

Petitioners, former participants in the Pennsylvania adultBasic Insurance Coverage Program ("adultBasic"), filed a pair of class action suits against Commonwealth officials seeking declaratory, mandamus and injunctive relief to remedy claimed violations of the Pennsylvania Tobacco Settlement Act (Act), 35 P.S. § 5701.101 *et. seq*. They are docketed at No. 121 M.D. 2011 and No. 157 M.D. 2011. The cases are currently pending on appeal in the Supreme Court of Pennsylvania.

Section 303 of the Act, 35 P.S. § 5701.303, establishes a Tobacco Settlement Fund ("Fund") to receive and distribute payments received by the Commonwealth pursuant to the Master Settlement Agreement ("Agreement") of June 22, 2000. The Agreement was entered into on November 23, 1998, by the Commonwealth and leading United States tobacco manufacturers approved by the Court of Common Pleas of Philadelphia County on January 13, 1999. *See* 40 Pa. D.&C. 4th 225; 35 P.S §§ 5671-75. The Agreement requires tobacco product manufactures to provide for home and community based care for tobacco use prevention and cessation efforts. 35 P.S. § 5701.101. The Agreement further mandates the establishment of a Health Endowment Account ("Account") for long-term hope pursuant to Section 303 of the Act. 35 P.S. § 5701.303. The money placed into the Fund is governed by Section 306 of the Act, 35 P.S. § 5701.306, which sets forth a formula determining the percentage of appropriated money allocated for certain programs.

One of the programs created by Section 1303 of the Act was the adultBasic coverage insurance program. The adultBasic program received appropriations from the Fund pursuant to section 306(b)(1)(vi) of the Act. 35 P.S. § 5701.306(b)(1)(vi). Section 306(b)(1)(vi) of the Act established that the adultBasic program shared its funding stream with the Medical Benefits for Workers With Disabilities Program ("MAWD"), established by Section 1503 of the Act, 35 P.S. § 5701.1503.

The ultimate purpose of the lawsuit is to force the Legislature to restore adultBasic. The gravamen of the petitioners' legal claims is predicated on their contention that in redirecting money from the Tobacco Settlement Fund through certain 2010 and 2011 amendments to The Fiscal Code, the Legislature "violated" the Act.

As part of their challenge to the Fiscal Code amendments, the petitioners assert that the amendments were enacted in violation of the Pennsylvania Constitution's "single subject" rule. PA. CONST. art. III, § 3. The petitioners also allege violations of Article III, Sections 6 and 11, of the Pennsylvania Constitution. Petitioners claim that the General Assembly, when enacting the 2010 and 2011 amendments to the Fiscal Code, effectively amended the Tobacco Settlement Act by reference only to its title, in violation of Article III, Section 6, of the Pennsylvania Constitution. They also claim the legislative process occurred in a manner inconsistent with the provisions of the Act in violation of the Article III, Section 11, requirement that the general appropriation bill embrace nothing but appropriations for the executive, legislative and judicial departments of the Commonwealth, for the public debt and for public schools.

The respondents filed preliminary objections to the amended petitions for review in both actions. On June 27, 2012, an *en banc* panel of the Commonwealth Court sustained in part and overruled in part the respondents' preliminary objection in the *Sears* case and directed the respondents to answer the amended petitions for review within 30 days. *Sears v. Corbett,* 49 A.3d 463 (Pa. Commw. Ct. 2012) (*Sears I*). The court made the same decision in the *Weisblatt* case on June 28, 2012. *See Weisblatt v. Corbett*, 53 A.3d 91 (Pa. Commw. Ct. 2012).

After the pleadings were closed, all parties filed applications for summary relief with the Commonwealth Court. On March 4, 2013, Commonwealth Court (through President Judge Pellegrini, acting for the court as a single judge) granted in part and denied in part the parties' applications. Relying upon the *en banc* court's opinion in *Sears I*, the court declared that the acts amending the Fiscal Code in 2010 and 2011 redirecting money from the Fund were unconstitutional in that they contained more than a single subject and amended the Tobacco Settlement Act in a procedurally improper manner. However, based on principles of sovereign immunity as had been summarized in the *en banc* court's opinion in *Sears I,* the court declined to order the Commonwealth parties to restore to the Tobacco Settlement Fund and the adultBasic program the funds that had been transferred in 2010 and 2011 pursuant to the Fiscal Code amendments; and it did not order the immediate restoration of the adultBasic insurance coverage program. Instead, the court ordered the executive respondents prospectively to adhere to the relevant Tobacco Settlement Act provisions during the 2013-14 fiscal year, unless the General Assembly were properly to enact appropriations or other laws that direct otherwise.

The General Assembly, the Executive, and Weisblatt filed cross-appeals of the Commonwealth Court's order with the Pennsylvania Supreme Court, *Sears v. Corbett*, 22 MAP 2013 (Pa.); *Sears v. Corbett*, 23 MAP 2013 (Pa.); *Weisblatt v. Corbett*, 24 MAP 2013 (Pa.); and *Weisblatt v. Corbett*, 31 MAP 2013 (Pa.). The General Assembly and Executive challenge the Commonwealth Court's declaration that Acts 46 and 26 violate the Pennsylvania Constitution and entry of injunctive relief enjoining enforcement of the acts. Weisblatt appealed the Commonwealth Court's ruling that sovereign immunity precludes recovery of damages. The four appeals have been consolidated into a single briefing schedule. Oral argument occurred on November 19, 2014, and the parties are awaiting a decision from the Court.

Philadelphia Entertainment and Development Partners, LP d/b/d Foxwoods Casino Philadelphia v. Commonwealth of Pennsylvania Department of Revenue and Commonwealth of Pennsylvania (E.D. Bkrpcy. Ct.)

On May 29, 2014, Philadelphia Entertainment Development Partners, LP, d/b/a Foxwoods Casino Philadelphia ("PEDP"), a debtor in bankruptcy, commenced in the U.S. Bankruptcy Court for the Eastern District of Pennsylvania an adversarial action against the Commonwealth of Pennsylvania and the Pennsylvania Department of Revenue (collectively referred to hereinafter as the "Commonwealth").

Making various claims based on federal law, PEDP seeks from the Commonwealth the recovery of a $50 million license fee that PEDP paid to the Pennsylvania Gaming Control Board ("Board") in 2007 as required by the Pennsylvania Race Horse Development and Gaming Act ("Gaming Act"). The license fee was paid to the Board (through a bank account controlled by the Department of Revenue) as a condition of PEDP receiving a gaming license under the Gaming Act and was deposited into the State Gaming Fund administered by the Pennsylvania Treasury Department.

In 2010, the Board revoked PEDP's gaming license, and the Commonwealth Court affirmed. PEDP sometime thereafter sought the return of its $50 million license fee, but the request was denied because the licensee fee is not refundable under the Gaming Act. PEDP responded with its adversarial action against the Commonwealth.

The Commonwealth has filed a motion to dismiss, PEDP has responded, and further briefing is scheduled. Also, the Bankruptcy Court heard argument on the Commonwealth's motion to dismiss on November 14, 2014, and the parties are awaiting a decision from the court.

The Commonwealth contends that PEDP is entitled to no relief. However, in the event that judgment were entered against the Commonwealth, it is presumed (absent specific legislative or judicial direction providing otherwise) that payment of any such judgment in favor of PEDP would be made from the State Gaming Fund (and not the General Fund).

RATINGS

Fitch Ratings ("Fitch") has assigned its municipal bond rating of "AA-" (outlook "Stable") to the Bonds. Moody's Investor Service ("Moody's") has assigned its municipal bond rating of "Aa3" (outlook "Stable") to the Bonds. Standard and Poor's Ratings Services, a division of the McGraw-Hill Companies ("S&P") has assigned its municipal bond rating of "AA-" (outlook "Stable") to the Bonds. On July 21, 2014, Moody's lowered its ratings on Commonwealth General Obligation bonds from Aa2 to Aa3, outlook stable. On September 23, 2014, Fitch lowered its ratings on Commonwealth General Obligations bonds from AA to AA-, outlook stable. On September 25, 2014, S&P lowered its ratings on Commonwealth General Obligations bonds from AA to AA-, outlook stable.

See "Bond Insurance – Assured Guaranty Municipal Corp" herein for a discussion of the ratings assigned to the Bond Insurer and the insured Bonds.

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

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

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

TAX EXEMPTION AND OTHER TAX MATTERS

Tax Exemption-Opinion of Co-Bond Counsel

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

In the opinion of Co-Bond Counsel, interest (including accrued original issue discount) on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Co-Bond Counsel is subject to the condition that the Commonwealth comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so includable in gross income retroactive to the date of issuance of the Bonds. The Commonwealth has covenanted to comply with all such requirements. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax. Co-Bond Counsel expresses no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon. See discussion of "Alternative Minimum Tax", "Branch Profits Tax", "S Corporations with Passive Investment Income", "Social Security and Railroad Retirement Benefits", "Deduction for Interest Paid by Financial

Institutions to Purchase or Carry Tax-Exempt Obligations", "Property or Casualty Insurance Company" and "Accounting Treatment of Original Issue Discount and Amortizable Bond Premium" below.

Alternative Minimum Tax

The Code includes, for purposes of the corporate alternative minimum tax, a preference item consisting of, generally, seventy-five percent of the excess of a corporation's "adjusted current earnings" over its "alternative minimum taxable income" (computed without regard to this particular preference item and the alternative tax net operating loss deduction). Thus, to the extent that tax-exempt interest (including interest on the Bonds) is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the alternative minimum tax.

Branch Profits Tax

Under the Code, foreign corporations engaged in a trade or business in the United States will be subject to a "branch profits tax" equal to thirty percent (30%) of the corporation's "dividend equivalent amount" for the taxable year. The term "dividend equivalent amount" includes interest on tax-exempt obligations.

S Corporations with Passive Investment Income

Section 1375 of the Code imposes a tax on the income of certain small business corporations for which an S Corporation election is in effect, and that have "passive investment income". For purposes of Section 1375 of the Code, the term "passive investment income" includes interest on the Bonds. This tax applies to an S Corporation for a taxable year if the S Corporation has Subchapter C earnings and profits at the close of the taxable year and has gross receipts, more than twenty-five percent (25%) of which are "passive investment income". Thus, interest on the Bonds may be subject to federal income taxation under Section 1375 of the Code if the requirements of that provision are met.

Social Security and Railroad Retirement Benefits

Under Section 86 of the Code, certain Social Security and Railroad Retirement benefits (the "benefits") may be includable in gross income. The Code provides that interest on tax-exempt obligations (including interest on the Bonds) is included in the calculation of "modified adjusted gross income" in determining whether a portion of the benefits received are to be includable in gross income of individuals.

Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations

The Code, subject to limited exceptions not applicable to the Bonds, denies the interest deduction for indebtedness incurred or continued to purchase or carry tax-exempt obligations, such as the Bonds. With respect to banks, thrift institutions and other financial institutions, the denial to such institutions is one hundred percent (100%) for interest paid on funds allocable to the Bonds and any other tax-exempt obligations acquired after August 7, 1986.

Property or Casualty Insurance Company

The Code also provides that a property or casualty insurance company may also incur a reduction, by a specified portion of its tax-exempt interest income, of its deduction for losses incurred.

Accounting Treatment of Original Issue Discount and Amortizable Bond Premium

The Second Series Bonds maturing on August 15, 2033-2035 are herein referred to as the "Discount Bonds." In the opinion of Co-Bond Counsel, the difference between the initial public offering price of the Discount Bonds set forth on the cover page and the stated redemption price at maturity of each such Bonds constitutes "original issue discount," all or a portion of which will, on the disposition or payment of such Bonds, be treated as tax-exempt interest for federal income tax purposes. Original issue discount will be apportioned to an owner of the Discount Bonds under a "constant interest method," which utilizes a periodic compounding of accrued interest. If an owner of a Discount Bond who purchases it in the original offering at the initial public offering price owns that Discount Bond to maturity, that Bondholder will not realize taxable gain for federal income tax purposes upon payment of the Discount Bond at maturity. An owner of a Discount Bond who purchases it in the original offering at the initial public offering price and who later disposes of the Discount Bond prior to maturity will be deemed to have accrued tax-exempt income in a manner described above; amounts realized in excess of the sum of the original offering price of such Discount Bond and the amount of accrued original issue discount will be taxable gain.

Purchasers of Discount Bonds should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on the Discount Bonds. Prospective purchasers of the Discount Bonds should consult their tax advisors regarding the Commonwealth tax treatment of original issue discount.

The Second Series Bonds maturing on August 15, 2016 through and including August 15, 2032 and all First Refunding Series Bonds are hereinafter referred to as the "Premium Bonds". An amount equal to the excess of the initial public offering price of a Premium Bond set forth on the inside cover page over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Pennsylvania Tax Exemption

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

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

Changes in Federal Tax Law

From time to time, there are presidential proposals, proposals by various federal committees and legislative proposals in Congress that, if enacted, could alter or amend the tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposals may be enacted or whether if enacted such proposals would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Co-Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Co-Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation.

UNDERWRITING

After competitive bidding on May 27, 2015, the Bonds were awarded to a selling group represented by Bank of America Merrill Lynch (the "Underwriters) for a purchase price of $1,392,738,814.96 which is equivalent to the principal amount of such Bonds, less Underwriters' discount of $2,760,750.89 plus net original issue premium of

$153,074,565.85. 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 0.22220 percent of the aggregate principal amount of the Bonds. The Underwriters may change the public offering yields from time to time.

LEGALITY FOR INVESTMENT

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

FINANCIAL ADVISOR

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

LEGAL MATTERS

All legal matters incident to the authorization and issuance of the Bonds are subject to the approval of the Attorney General of the Commonwealth of Pennsylvania, The Honorable Kathleen Kane, Saul Ewing LLP, and Turner Law, P.C. Co-Bond Counsel. A copy of the opinion of Co-Bond Counsel for the Bonds will accompany the Bonds delivered to DTC. Copies of the opinion of the Attorney General, together with additional copies of the opinions of 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.

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.: Ms. Mindy Dierich, 18th Floor, Harristown 2, 333 Market Street, Harrisburg, Pennsylvania 17101-2210 (Telephone (717) 787-7342). Recent annual Comprehensive Annual 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

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

(i) File in an electronic format as required by the MSRB on the MSRB's Electronic Municipal Market Access system ("EMMA") not later than 240 days following the end of each of the Commonwealth's fiscal years, Annual Financial Statements and Annual Operating Data, as defined below, with the Municipal Securities Rulemaking Board (the "MSRB");

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

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

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

Tables 5 through 12 under the heading "COMMONWEALTH FINANCIAL PERFORMANCE";

Tables 15 through 19 under the heading "OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH"; and

Tables 20 through 24 under the heading "OTHER STATE-RELATED OBLIGATIONS."

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

Event Disclosure. The Continuing Disclosure Agreement requires the Commonwealth to provide timely notice, but in no event longer than within 10 business days following such a listed occurrence, to the MSRB of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (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;
7. Modifications to rights of Bond holders, if material;
8. Bond calls, if material and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Commonwealth;
13. The consummation of a merger, consolidation, or acquisition involving 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; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

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

The Commonwealth has complied in all material respects with its prior continuing disclosure obligations during the five (5) year period immediately preceding the date of this document.

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/ Christopher Craig
Christopher Craig, Executive Deputy
State Treasurer

/s/ Eugene A. Depasquale
Eugene A. DePasquale, Auditor General

APPENDIX A

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

To the Governor and the General Assembly:

I, Eugene A. DePasquale, 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, 2015	$ 35,048,322,844
(i)	The amount of outstanding net debt as of the end of the preceding fiscal year	$ 10,132,659,496
(ii)	The amount of such net debt as of February 28, 2015	$ 10,646,460,000
(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, 2015	$ 50,688,104,976
(iv)	The amount of such debt scheduled to be repaid during the remainder of the current fiscal year	$ 170,575,000
(v)	The amount of debt authorized by law to be issued, but not yet incurred	$ 96,306,088,968
(vi)	The amount of outstanding obligations excluded from outstanding debt as self sustaining pursuant to Article VIII, Section 7(c)(1), (2) and (3) of the Constitution of Pennsylvania	$ 9,977,657,922

IN TESTIMONY WHEREOF, I have set my hand and affixed the seal of the Auditor General, this 28th day of February 2015.

/s/Eugene A. DePasquale
EUGENE A.DEPASQUALE
Auditor General
Commonwealth of Pennsylvania

(Seal)

APPENDIX B

SELECTED DATA ON THE COMMONWEALTH OF PENNSYLVANIA

General

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

Pennsylvania's agricultural industries remain an important component of the Commonwealth's economic structure, accounting for more than $7.3 billion in crop and livestock products annually. In 2014, agribusiness and food related industries reached export sales surpassing $1.3 billion in economic activity. Over 59,000 farms form the backbone of the Commonwealth's agricultural economy. Farmland in Pennsylvania includes over four million acres of harvested cropland and three million acres of pasture and farm woodlands - nearly one-third of the commonwealth's total land area. Agricultural diversity in the commonwealth is demonstrated by the fact that Pennsylvania ranks among the top ten states in the production of a variety of agricultural products.

Pennsylvania's extensive public and private forests provide a vast source of material for the lumber, furniture, and paper products industries. The forestry and related industries accounts for 1.5% of employment with economic activity of nearly $5 billion in sales in domestic and international trade. Additionally, the Commonwealth derives a good water supply from underground sources, abundant rainfall, and a large number of rivers, streams, and lakes. Other natural resources include major deposits of coal, petroleum, and natural gas. Annually, about 66 million tons of anthracite and bituminous coal, 1,310 billion cubic feet of natural gas, and about 2.2 million barrels of oil are extracted from Pennsylvania. Pennsylvania is one of the top 10 producing states in the country for aggregate/crushed stone. The value of non-coal mineral production in Pennsylvania is approximately $1 billion annually.

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

Population

The Commonwealth is highly urbanized. Of the Commonwealth's 2014 mid-year population estimate, 79 percent resided in the 15 Metropolitan Statistical Areas ("MSAs") of the Commonwealth. The largest MSAs in the Commonwealth are those that include the cities of Philadelphia and Pittsburgh, which together contain almost 44 percent of the Commonwealth's total population. The population of Pennsylvania, 12.7 million people in 2014, according to the U.S. Bureau of the Census, represents a population growing slower than the nation with a higher portion than the nation or the region comprised of persons 45 or over. The following tables present the population trend from 2005 to 2014 and the age distribution of the population for 2013.

Population Trends
Pennsylvania, Middle Atlantic Region and the United States
2005-2014

	Total Population In Thousands			Total Population as a % of 2005 base		
As of July 1	PA	Middle Atlantic Region [(a)]	U.S.	PA	Middle Atlantic Region [(a)]	U.S.
2005	12,418	40,370	295,753	100%	100%	100%
2006	12,471	40,451	295,593	100	100	100
2007	12,522	40,581	301,579	100	100	102
2008	12,566	40,697	304,374	101	101	103
2009	12,604	40,854	307,006	101	101	104
2010	12,711	40,916	309,347	102	101	105
2011	12,744	41,108	311,721	102	102	105
2012	12,770	41,253	314,112	103	102	106
2013	12,781	41,388	316,497	103	102	107
2014	12,787	41,471	318,857	103	103	108

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

Population by Age Group — 2013
Pennsylvania, Middle Atlantic Region and the United States

Age	Pennsylvania	Middle Atlantic Region[(a)]	United States
Under 5 years	5.6%	5.8%	6.3%
5-24 years	25.4	25.7	27.0
25-44 years	24.6	26.1	26.3
45-64 years	28.0	27.4	26.3
65 years and over	16.4	15.0	14.1

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

Employment

Non-agricultural employment in Pennsylvania over the 10 years ending in 2014 increased at an average annual rate of 0.2 percent compared with an increase 0.3 percent rate for the Middle Atlantic region and 0.3 percent rate for the U.S. The following table shows employment trends from 2005 through 2014.

Non-Agricultural Establishment Employment Trends
Pennsylvania, Middle Atlantic Region and the United States
2005-2014

	Total Establishment Employment In Thousands			Total Establishment Employment as a % of 2005 base		
Calendar Year	PA	Middle Atlantic Region[a]	US	PA	Middle Atlantic Region[a]	US
2005	5,705	18,270	134,005	100 %	100 %	100 %
2006	5,759	18,437	136,398	101	100	102
2007	5,802	18,603	137,936	102	102	103
2008	5,804	18,634	137,170	102	102	103
2009	5,620	18,059	131,233	99	99	98
2010	5,625	18,031	130,275	99	99	97
2011	5,689	18,220	131,842	100	100	98
2012	5,729	18,428	134,104	100	101	100
2013	5,744	18,620	136,393	101	102	102
2014	5,790	18,836	139,042	101	103	104

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

Non-manufacturing employment in Pennsylvania has increased in recent years and reached 90.3 percent of total employment by 2014. Consequently, manufacturing employment constitutes a diminished share of total employment within the Commonwealth. Manufacturing, contributing 9.7 percent of 2014 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 2014, the services sector accounted for 49.4 percent of all non-agricultural employment while the trade sector accounted for 14.7 percent. The following table shows trends in employment by sector for Pennsylvania from 2010 through 2014.

Non-Agricultural Establishment Employment by Sector
Pennsylvania
2010-2014
(In Thousands)

	CALENDAR YEAR									
	2010		2011		2012		2013		2014	
	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
Manufacturing:										
Durable………………	334.3	5.8	342.0	5.9	347.5	6.0	346.1	6.0	346.1	5.9
Non-Durable…………	225.7	3.9	223.0	3.9	219.7	3.8	218.5	3.8	221.1	3.8
Total Manufacturing[d]……	560.0	9.8	565.0	9.8	567.2	9.8	564.6	9.7	567.2	9.7
Non-Manufacturing:										
Trade[a]………………	847.7	14.8	852.9	14.8	857.8	14.8	856.5	14.8	860.2	14.7
Finance[b]……………	311.0	5.4	308.6	5.4	309.5	5.4	313.2	5.4	315.2	5.5
Services…………...	2,752.3	48.2	2,789.8	48.4	2,814.3	48.6	2,844.3	49.0	2,896.9	49.4
Government…………	770.6	13.5	751.4	13.0	732.3	12.7	720.7	12.4	711.9	12.1
Utilities[c]…………..	231.6	4.1	238.2	4.1	241.8	4.2	244.2	4.2	250.6	4.3
Construction…………	215.9	3.8	222.8	3.9	225.8	3.9	225.6	3.9	231.0	3.9
Mining………………..	25.9	0.5	33.2	0.6	36.3	0.6	35.3	0.6	36.8	0.6
Total Non-Manufacturing[d]	5,155.0	90.2	5,196.9	90.0	5,217.8	90.2	5,239.8	90.3	5,302.6	90.3
Total Employees[d][e]	5,715.0	100.0	5,761.9	99.8	5,785.0	100.0	5,804.4	100.0	5,869.8	100.0

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

The following table presents the percentages of non-agricultural employment in various sectors in Pennsylvania and the United States in 2014.

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

	2014 Calendar Year	
	Pennsylvania	United States
Manufacturing.......................................	9.8%	8.8%
Trade [a]	14.7	15.2
Finance [b]..	5.5	4.3
Services..	49.4	47.3
Government..	12.1	15.7
Utilities[c]	4.3	3.7
Construction..	3.9	4.4
Mining...	0.6	0.6
Total[d]	100.0%	100.0%

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

Within the manufacturing sector of Pennsylvania's economy, which now accounts for less than one-tenth of total non-agricultural employment in Pennsylvania, the fabricated metals industries employed the largest number of workers. Employment in fabricated metals industries was 14.3 percent of Pennsylvania manufacturing employment but only 1.4 percent of total Pennsylvania non-agricultural employment in 2014. The following table shows trends in manufacturing employment by industry for Pennsylvania from 2010 through 2014.

Manufacturing Establishment Employment by Industry
Pennsylvania
2010-2014
(In Thousands)

Unemployment

Pennsylvania's annual average unemployment rate was equivalent to the national average throughout the 2000's. Slower economic growth caused the unemployment rate in the Commonwealth to rise to 8.5 percent in 2010 compared to 4.4 percent annual unemployment rate in 2007. As of March 2015, the most recent month for which figures are available, Pennsylvania had a seasonally adjusted annual unemployment rate of 5.3 percent. The following table represents the annual non-adjusted unemployment rate in Pennsylvania, the Middle Atlantic Region, and the United States from 2005 through 2014.

	CALENDAR YEAR									
	2010		2011		2012		2013		2014	
	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
Durable Goods:										
Primary Metals……………..	36.2	6.2	38.5	6.8	39.7	7.0	39.4	7.0	38.9	6.9
Fabricated Metals…………..	77.6	12.8	80.3	14.2	81.7	14.4	80.8	14.3	81.0	14.3
Machinery (excluding electrical)….	45.2	7.9	47.0	8.3	48.8	8.6	48.5	8.6	48.0	8.5
Electrical Equipment………..	24.7	3.7	25.9	4.6	26.0	4.6	26.0	4.6	26.0	4.6
Transportation Equipment….	36.9	6.2	37.6	6.7	39.1	6.9	38.9	6.9	38.4	6.8
Furniture Related Products…..	14.9	3.5	15.1	2.7	15.1	2.7	14.9	2.6	15.0	2.6
Other Durable Goods………	98.8	19.2	97.6	17.3	97.1	17.1	97.6	17.3	98.8	17.4
Total Durable Goods[a]…...	334.3	59.5	342.0	60.5	347.5	61.3	346.1	61.3	346.1	61.0
Non-Durable Goods:										
Pharmaceutical/Medicine…	21.3	3.3	20.2	3.6	19.0	3.3	17.9	3.2	17.4	3.1
Food Products……………..	66.5	10.5	66.7	11.8	67.1	11.8	67.8	12.0	69.9	12.3
Chemical Products…………	43.0	7.6	42.2	7.5	41.2	7.3	40.6	7.2	39.8	7.0
Printing and Publishing……	28.2	5.5	27.0	4.8	25.5	4.5	24.8	4.4	24.7	4.4
Plastics/Rubber Products…….	35.2	5.9	35.3	6.2	35.2	6.2	35.3	6.3	36.1	6.4
Other Non-Durable Goods…	31.5	7.5	31.6	5.6	31.7	5.6	32.1	5.7	33.2	5.9
Total Non-Durable Goods[a]	225.7	40.3	223.0	39.5	219.7	38.7	218.5	38.7	221.1	39.0
Total Manufacturing Employees[a]……………	560.0	100.0	565.0	100.0	567.2	100.0	564.6	100.0	567.2	100.0

[a] Discrepancies occur due to rounding

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

Annual Average Unemployment Rate
Pennsylvania, Middle Atlantic Region and the United States
2005-2014

Calendar Year	Pennsylvania	Middle Atlantic Region[(a)]	United States
2005	5.0	4.9	5.1
2006	4.6	4.6	4.6
2007	4.4	4.4	4.6
2008	5.3	5.4	5.8
2009	8.0	8.4	9.3
2010	8.5	8.8	9.6
2011	7.9	8.4	8.9
2012	7.9	8.5	8.1
2013	7.4	7.7	7.4
2014	5.8	6.2	6.2

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

The following table presents the thirty (30) largest non-governmental employers in Pennsylvania:

Commonwealth of Pennsylvania
Thirty Largest
Non-Governmental Employers
June 2014

Company	Rank	Company	Rank
Wal-Mart Associates	1	Vanguard Group Inc.	16
University of Pennsylvania	2	GMRI Inc.	17
Pennsylvania State University	3	Merck Sharp & Dohme Corp	18
Giant Food Stores	4	Milton Hershey Medical Center	19
UPMC Presbyterian	5	US Airways Inc	20
Lowe's Home Centers Inc	6	K-MART Corporation	21
University of Pittsburgh	7	Heartland Employment Services	22
United Parcel Service Inc	8	WAWA Inc.	23
PNC Bank NA	9	Thomas Jefferson University Hospital.	24
Giant Eagle Inc	10	Western Penn Allegheny Health	25
Weis Markets Inc.	11	Pennsylvania CVS Pharmacy LLC	26
The Home Depot USA Inc	12	Sheetz Inc.	27
The Children's Hospital of Philadelphia	13	Wegmans Food Markets Inc.	28
Comcast Cablevision Corp	14	Temple University	29
Target Corporation	15	Hershey Entertainment & Resorts Co.	30

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

Personal Income

Personal income in the Commonwealth for 2014 is $610.3 billion, an increase of 3.4 percent over the previous year. During the same period, national personal income increased by 3.9 percent. Based on the 2014 personal income estimates, per capita income is at $47,727 in the Commonwealth compared to per capita income in the United States of $46,129. The following tables represent annual personal income and per capita income from 2005 through 2014.

Personal Income
Pennsylvania, Mideast Region and the United States
2005-2014

	Total Personal Income Dollars in Millions			Total Personal Income As a % of 2005 base		
Year	PA	Mideast Region[a]	US.[b]	PA	Mideast Region[a]	US
2005	$ 447,157	$ 1,938,732	$10,605,595	100 %	100 %	100 %
2006	476,607	2,080,422	11,376,405	107	107	107
2007	501,352	2,211,268	11,990,104	112	114	113
2008	519,191	2,277,306	12,429,234	116	117	117
2009	514,729	2,239,525	12,080,223	115	116	114
2010	529,201	2,307,870	12,417,659	118	119	117
2011	558,143	2,431,822	13,189,935	125	125	124
2012	581,772	2,532,216	13,873,161	130	131	131
2013	590,171	2,562,612	14,151,427	132	132	133
2014	610,295	2,651,359	14,708,582	136	137	139

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

Per Capita Income
Pennsylvania, Mideast Region and the United States
2005-2014

	Per Capita Income			As % of US	
Calendar Year	PA	Mideast Region[a]	U.S.	PA	Mideast Region[a]
2004	$ 35,916	$ 41,041	$ 35,888	100 %	114 %
2006	38,096	43,952	38,127	100	115
2007	39,904	46,579	39,804	100	117
2008	41,165	47,757	40,873	101	117
2009	40,636	46,711	39,379	103	119
2010	41,635	47,878	40,144	104	119
2011	43,806	50,194	42,332	104	119
2012	45,577	52,056	44,200	103	118
2013	46,202	52,485	44,765	103	117
2014	47,727	54,062	46,129	103	117

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

The following table presents growth rates in personal income and selected components of personal income for Pennsylvania, the Mideast Region and the United States from 2010 through 2014.

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

Calendar Year	Pennsylvania	Mideast Region[a]	United States
Total Personal Income			
2010	2.8%	3.0%	2.8%
2011	5.4	5.3	6.2
2012	4.2	4.1	5.1
2013	1.4	1.2	2.0
2014	3.4	3.4	3.9
Manufacturing			
2010	1.2%	-0.1%	1.2%
2011	4.4	1.8	5.6
2012	2.3	1.2	4.2
2013	0.5	-0.1	1.6
2014	3.3	1.5	3.6
Trade [b]			
2010	2.1%	2.2%	1.7%
2011	4.8	4.9	4.6
2012	2.3	4.0	4.6
2013	2.3	2.3	3.3
2014	3.6	3.7	4.5
Finance[c]			
2010	3.2%	10.3%	5.9%
2011	2.5	1.4	0.6
2012	5.1	1.4	6.5
2013	3.4	0.4	2.1
2014	4.4	5.3	3.9
Services			
2010	-0.8%	0.1%	0.6%
2011	5.5	7.1	6.9
2012	5.1	5.1	6.1
2013	3.1	2.7	2.8
2014	4.7	5.7	6.4
Utilities			
2010	2.9%	5.8%	1.9%
2011	10.2	5.0	5.3
2012	-4.4	-2.8	-2.1
2013	3.4	1.5	4.3
2014	6.4	7.4	6.7
Construction			
2010	0.7%	-0.8%	-3.7%
2011	5.1	3.7	2.2
2012	5.9	6.0	7.9
2013	4.0	5.9	7.1
2014	5.5	5.6	7.8
Mining			
2010	56.8%	32.7%	30%
2011	54.4	42.6	38.9
2012	17.6	10.9	9.5
2013	8.0	2.7	5.2
2014	9.4	9.2	7.7

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

The Commonwealth's average hourly wage rate of $19.02 for manufacturing and production workers compares below the national average of $20.61 for 2014. The following table presents the average hourly wage rates for 2010 through 2014.

Average Hourly Wages
Production Workers on Manufacturing Payrolls
Pennsylvania and the United States
2010-2014

Calendar Year	PA	US
2010	$ 16.88	$ 19.05
2011	17.49	19.44
2012	18.26	19.74
2013	19.16	20.13
2014	19.02	20.61

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

Market and Assessed Valuation of Real Property

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

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

Valuations of Taxable Real Property
2004-2013

Year	Market Value[(a)]	Assessed Valuation	Ratio of Assessed Valuation to Market Value[(a)]
2004	$ 523,595,339,800	$ 352,014,550,601	67.2
2005	546,222,770,500	378,011,903,306	69.2
2006	619,788,036,800	393,869,708,825	63.5
2007	633,886,898,100	400,428,104,035	63.1
2008	708,521,506,000	406,426,527,325	57.3
2009	717,475,983,911	431,911,595,146	60.2
2010	753,847,457,900	436,995,393,629	57.9
2011	756,045,833,849	451,343,272,265	59.7
2012	753,344,175,841	452,361,346,637	60.0
2013	781,362,158,748	499,743,087,376	63.9

[(a)] Value adjusted for difference between regular assessment and preferential assessment permitted on certain farm and forestlands.
Source: Annual Certifications by the State Tax Equalization Board July 2014.

APPENDIX C

COMMONWEALTH GOVERNMENT AND FISCAL ADMINISTRATION

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

Legislative Branch

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

Executive Branch

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

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

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

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

The Attorney General is the chief law enforcement officer of the Commonwealth and is responsible for upholding and defending the constitutionality of all statutes. The Attorney General 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.

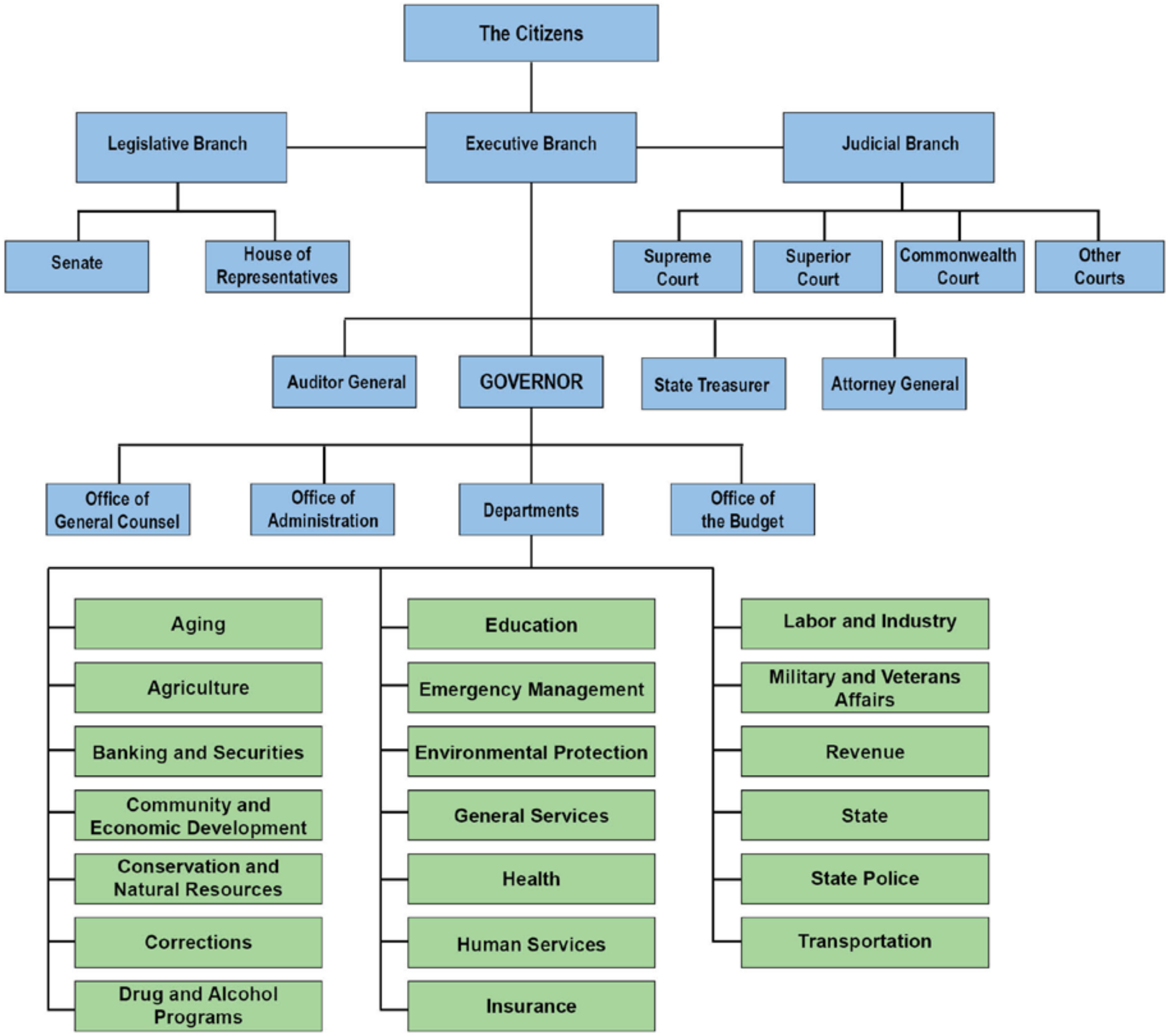
Activities of state government are also conducted by various independent commissions, boards, authorities and agencies created by statute and not under the direct jurisdiction of the executive and legislative branches.

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

Organizational Chart



AGENCIES

Higher Education Assistance
Housing Finance
Interstate Agencies

AUTHORITIES

Automobile Theft Prevention
Commonwealth Financing
eHealth Partnership
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
Probation and Parole
Public School Employees' Retirement
State Employees' Retirement
Tax Equalization

COMMISSIONS

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

Fiscal Organization

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

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

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

The Budgetary Process

The Commonwealth operates on a fiscal year beginning July 1 and ending June 30. For example, "fiscal year 2014" refers to the fiscal year ending on June 30, 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting and Budgetary Controls

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

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

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

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

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

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

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

Audits

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

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

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

APPENDIX D

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

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

DTC will act as securities depository for the 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.

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. 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 any Direct or Indirect Participant or Beneficial Owner with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant with respect to any beneficial ownership interest in any Bonds; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of, premium, if any, and interest on the Bonds; (c) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner of any notice with respect to the Bond, including, without limitation any notice of redemption; or (d) other action taken by DTC or Cede & Co., including the effectiveness of any action taken pursuant to an Omnibus Proxy.

SELECTED CONSTITUTIONAL PROVISIONS RELATING TO THE FINANCES OF THE COMMONWEALTH

Article VIII — TAXATION AND FINANCE

Commonwealth Indebtedness

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

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

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

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

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

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

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

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

Commonwealth Credit Not to be Pledged

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

Municipal Debt Not to be Assumed by Commonwealth

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

Audit

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

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

Gasoline Taxes and Motor License Fees Restricted

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

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

Governor's Budgets and Financial Plan

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

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

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

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

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

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

Appropriations

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

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

Surplus

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

Project "70"

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

Land and Water Conservation and Reclamation Fund

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

APPENDIX F

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

June 16, 2015

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

Re: Commonwealth of Pennsylvania General Obligation Bonds, Second Series and First Refunding Series of 2015

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 $460,000,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Second Series of 2015 (the "Second Series Bonds"), and the $782,425,000 aggregate principal amount of the Commonwealth of Pennsylvania General Obligation Bonds, First Refunding Series of 2015 (the "First Refunding Series Bonds" and together with the Second Series Bonds, the "Bonds"). The Bonds are dated the date of issuance and delivery. The Bonds are issued as fully registered bonds without coupons in the denomination of $5,000 or any integral multiple thereof within a maturity and will bear interest from the date of issuance and delivery, payable semi-annually on February 15 and August 15 of each year commencing February 15, 2016 with respect to the Second Series Bonds, and payable semi-annually February 15 and August 15 of each year commencing February 15, 2016 with respect to the First Refunding Series Bonds, until the obligation with respect to the payment of such principal shall have been discharged.

The Bonds are authorized and issued pursuant to and in full compliance with the provisions, restrictions and limitations of Section 7 of Article VIII of the Constitution; the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1999-1, approved February 9, 1999, as amended, annual capital budget bills and various bond authorization bills enacted by the General Assembly. The Bonds are also authorized and issued pursuant to resolutions adopted by the Governor, the State Treasurer and the Auditor General (the "Issuing Officials") on May 20, 2015, and May 27, 2015 (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.

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

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

I am of the opinion that:

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

2. Pursuant to full and adequate legal power conferred upon them by the Constitution and the statutes referred to above, the Governor, the 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 in the Official Statement) 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,

Kathleen Kane
Attorney General

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

June 16, 2015

RE: Commonwealth of Pennsylvania General Obligation Bonds,
$460,000,000 Second Series of 2015 and
$782,425,000 First Refunding Series of 2015

TO THE PURCHASERS OF THE BONDS:

We have served as Co-Bond Counsel to the Commonwealth of Pennsylvania (the "Commonwealth") in connection with the issuance of its $460,000,000 General Obligation Bonds, Second Series of 2015, and $782,425,000 First Refunding Series of 2015 (the "Bonds"). The Bonds are issued under and pursuant to (i) Section 7 of Article VIII of the Constitution of the Commonwealth, (ii) the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1991-1, approved February 9, 1999, as amended (the "Act"), 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 May 20, 2015 as amended May 26 and May 28, 2015 (the "Resolutions"). Capitalized terms used herein but not defined shall have the meanings set forth in the Resolutions.

The Bonds are being issued by the Commonwealth (i) to finance capital projects consisting of redevelopment assistance projects, Act 89 of 2013 transportation projects, voter approved Growing Greener projects and public improvement projects for furniture and equipment, (ii) refunding on a current and advance basis of all or a portion of the following bonds; Third Series of 2004, First Series of 2005, Second Series of 2005, First Series of 2006, Second Series of 2006, First Series A of 2007, Second Series A of 2007, Second Series B of 2007, and First Series of 2008 and (iii) to pay the costs of issuance of the Bonds.

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

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

5. Interest (including accrued original issue discount) on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the Commonwealth complies with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon continues to be excluded from gross income for purposes of federal income taxation. The Commonwealth has covenanted to comply with all such requirements. Failure to comply with all of such requirements could cause the interest on the Bonds to be includable in gross income retroactive to the date of issuance of the Bonds. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax. We express no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon.

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

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

These opinions are rendered on the basis of federal law and the laws of the Commonwealth as enacted and construed on the date hereof.

This opinion is limited to the matters expressly stated herein. No implied opinions are to be inferred to extend this opinion beyond the matters expressly stated herein. This opinion is expressed as of the date hereof. We do not assume any obligation to update or supplement this opinion to reflect, or otherwise advise you of, any facts or circumstances which may hereafter come to our attention or any changes in facts, circumstances or law which may hereafter occur. This opinion is rendered and may be relied upon solely in connection with the transactions contemplated hereby and may not be relied upon for any other purpose.

Very truly yours,

ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ____________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019
(212) 974-0100