

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 28, 2023

In the opinion of Co-Bond Counsel, assuming continuing compliance by the Commonwealth with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and all regulations applicable thereunder, and subject to the conditions described in "TAX MATTERS" herein, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. However, interest on the Bonds is taken into account in determining annual adjusted financial statement income (as defined in Section 56A of the Code) of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the federal alternative minimum tax imposed on such corporations under Section 55(b) of the Code for tax years beginning after December 31, 2022. Other provisions of the Code may affect the purchasers of the Bonds. See "TAX MATTERS" herein. Co-Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. See "TAX MATTERS" herein.

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS:

Fitch: "AA" (stable outlook)

Moody's: "Aa3" (positive outlook)

S&P: "A+" (positive outlook)



\$2,107,775,000*
Commonwealth of Pennsylvania
General Obligation Bonds,
\$1,335,000,000* First Series of 2023
\$772,775,000* First Refunding Series of 2023

Dated: Date of Delivery

Due: as shown on the inside front cover

- Defined Terms** All capitalized terms that are not otherwise defined on this cover page have the meanings provided to such terms in this Official Statement.
- The Offering** \$2,107,775,000* Commonwealth of Pennsylvania General Obligation Bonds, consisting of \$1,335,000,000* First Series of 2023 ("the First Series Bonds") and \$772,775,000* First Refunding Series of 2023 (the "First Refunding Series Bonds" and together with the First Series Bonds, the "Bonds").
- The Purpose** The Bonds are being issued to provide funds to finance (i) public improvement projects, including the purchase of original furniture and equipment; public improvement projects for buildings and structures; transportation assistance projects; and redevelopment assistance projects, (ii) the refunding of all or a portion of the Commonwealth's outstanding General Obligation Bonds set forth on Schedule I hereto (the "Refunded Bonds") and (iii) the costs of issuance relating to the Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.
- Payment and Security** The Bonds are direct and general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged for the payment of principal of and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS" herein.
- Interest Payment Date** The Bonds will be dated, and will bear interest from, the date of delivery thereof. Interest on Bonds will be payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2024*.
- Redemption** The First Series Bonds are subject to optional redemption prior to maturity. The First Refunding Series Bonds are not subject to optional redemption. Bidders, in their bids for purchase of the Bonds, may designate principal amounts of Bonds as term bonds as set forth in the Notice of Sale. See "THE BONDS – Redemption Provisions" and APPENDIX I herein.
- Tax Exemption** For information on certain tax matters relating to the Bonds, see the italicized language at the top of this cover page and "TAX MATTERS" herein.
- Delivery Date** It is expected that the Bonds will be available for delivery to DTC on December 20, 2023*.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the Appendices, which are an integral part hereof, to obtain information essential to making an informed investment decision regarding the Bonds.

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

BIDS TO BE RECEIVED ON DECEMBER 6*, 2023

See APPENDIX I – NOTICE OF SALE

The date of this Official Statement is December __, 2023.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Preliminary Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration.

\$1,335,000,000*
Commonwealth of Pennsylvania
General Obligation Bonds,
First Series of 2023

MATURITY DATES*, PRINCIPAL AMOUNTS*, INTEREST RATES, PRICES/YIELDS†, CUSIP‡

Maturity Dates (September 1)	Principal Amounts	Interest Rates	Prices/Yields	CUSIP (70914P)
2024	\$67,250,000			
2025	67,250,000			
2026	67,250,000			
2027	67,250,000			
2028	67,250,000			
2029	67,250,000			
2030	67,250,000			
2031	67,250,000			
2032	67,250,000			
2033	67,250,000			
2034	66,250,000			
2035	66,250,000			
2036	66,250,000			
2037	66,250,000			
2038	66,250,000			
2039	66,250,000			
2040	66,250,000			
2041	66,250,000			
2042	66,250,000			
2043	66,250,000			

* Preliminary, subject to change.

†Yield and price to first optional redemption date of _____.

‡ The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Commonwealth or the Underwriters, and such parties are 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. Neither the Commonwealth nor the Underwriters have 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. CUSIP is a registered trademark of the American Bankers Association (“ABA”). CUSIP data is provided by CUSIP Global Services, which is managed on behalf of the ABA by FactSet Research Systems Inc.

MATURITY DATES*, PRINCIPAL AMOUNTS*, INTEREST RATES, PRICES/YIELDS, CUSIP†

\$772,775,000*
Commonwealth of Pennsylvania
General Obligation Bonds,
First Refunding Series of 2023

<u>Maturity Dates</u> <u>(September 1)</u>	<u>Principal Amounts</u>	<u>Interest Rates</u>	<u>Prices/Yields</u>	<u>CUSIP</u> <u>(70914P)</u>
2024	\$ 50,000			
2025	31,000,000			
2026	91,695,000			
2027	40,010,000			
2028	102,640,000			
2029	108,740,000			
2030	114,950,000			
2031	121,510,000			
2032	128,440,000			
2033	33,740,000			

* Preliminary, subject to change.

† The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Commonwealth or the Underwriters, and such parties are 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. Neither the Commonwealth nor the Underwriters have 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. CUSIP is a registered trademark of the American Bankers Association (“ABA”). CUSIP data is provided by CUSIP Global Services, which is managed on behalf of the ABA by FactSet Research Systems Inc.

COMMONWEALTH OF PENNSYLVANIA



THE ISSUING OFFICIALS

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State Treasurer..... Stacy Garrity
Auditor General..... Timothy Defoor

OFFICE OF THE BUDGET

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Philadelphia, Pennsylvania

No dealer, broker, salesperson or other person has been authorized by the Commonwealth or the Underwriters (defined herein) to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. The information set forth herein has been obtained from the Commonwealth and other sources believed to be reliable and has been reviewed by the Underwriters in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction but is not guaranteed as to accuracy or completeness by the Underwriters who provided this sentence for inclusion here. This information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth since the date hereof.

All quotations from, and summaries and explanations of, provisions of law and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact.

Statements contained in this Official Statement, including the Appendices hereto, which involve estimates, forecasts or other matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. If and when included in this Official Statement, the words “expects,” “forecasts,” “plans,” “anticipates,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the Commonwealth generally and/or the amount of revenue collected by the Commonwealth include, among others, changes in economic conditions and various other events, conditions and circumstances, many of which are beyond the control of the Commonwealth. Readers should not place undue reliance on forward-looking statements. Such forward-looking statements speak only as of the date of this Official Statement. The Commonwealth disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Commonwealth’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Upon their issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, will not be listed on any stock or other securities exchange and neither the U.S. Securities and Exchange Commission (“SEC”) nor any other federal, state, municipal or other governmental entity, other than the Commonwealth (subject to the limitations set forth herein), will have passed upon the accuracy or adequacy of this Official Statement.

This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is being provided to prospective purchasers in electronic format from the following websites: <https://www.budget.pa.gov/Publications%20and%20Reports/InvestorInformation/Pages/InvestorInformation.aspx> and www.emma.msrb.org as well as either bound or printed format (“Original Bound Format”). This Official Statement may be relied upon only if it is in its Original Bound Format or if it is printed or saved in full directly from such websites.

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

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMMONWEALTH AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

This Official Statement speaks only as of the date printed on the cover page hereof. This Official Statement, and any supplement or amendment thereto, will be delivered to the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access System.

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OFFICIAL STATEMENT SUMMARY

This summary is furnished to provide limited introductory information regarding the terms of the Bonds and is qualified by the more detailed descriptions appearing in this Official Statement and the appendices hereto. The offering of the Bonds is made only by means of this entire Official Statement, and no person is authorized to make offers to sell or solicit offers to buy the Bonds unless the entire Official Statement is delivered. Certain terms used in this summary are defined elsewhere in this Official Statement.

The Issuer	The Commonwealth of Pennsylvania (the “Commonwealth”).										
The Bonds	\$2,107,775,000* Commonwealth of Pennsylvania, General Obligation Bonds, consisting of \$1,335,000,000* First Series of 2023 (the “First Series Bonds”) and \$772,775,000* First Refunding Series of 2023 (the “First Refunding Series Bonds” and together with the First Series Bonds, the “Bonds”).										
Use of Proceeds	The Bonds are being issued to provide funds to finance (i) public improvement projects, including the purchase of original furniture and equipment; public improvement projects for buildings and structures; transportation assistance projects; and redevelopment assistance projects, (ii) the refunding of all or a portion of the Commonwealth’s outstanding General Obligation Bonds set forth on Schedule I hereto (the “Refunded Bonds”) and (iii) the costs of issuance relating to the Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” contained herein.										
Maturity	The Bonds mature on the dates in the principal amounts set forth in the inside cover page hereof.										
Interest	Interest on the Bonds accrues from their date of delivery and is payable on March 1 and September 1 of each year, commencing on March 1, 2024*, until maturity or earlier redemption.										
Redemption	<p>The First Series Bonds are subject to optional redemption prior to maturity as described herein. See “THE BONDS – Redemption Provisions” contained herein.</p> <p>The First Refunding Series Bonds are not subject to optional redemption.</p> <p>Bidders, in their bids for purchase of the Bonds, may designate principal amounts of Bonds as term bonds as set forth in the Notice of Sale. See “MANDATORY SINKING FUND REDEMPTION AT THE OPTION OF THE BIDDER” in the Notice of Sale attached hereto as <u>APPENDIX I</u> for additional information.</p>										
Security for the Bonds	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. The Bonds are a first priority obligation of the Commonwealth. See “SECURITY AND SOURCE OF PAYMENT FOR BONDS” contained herein.										
Ratings	<table><thead><tr><th></th><th>Bonds</th></tr></thead><tbody><tr><td>Fitch</td><td>“AA” (stable outlook)</td></tr><tr><td>Moody’s</td><td>“Aa3” (positive outlook)</td></tr><tr><td>S&P</td><td>“A+” (positive outlook)</td></tr><tr><td></td><td>See “RATINGS” contained herein.</td></tr></tbody></table>		Bonds	Fitch	“AA” (stable outlook)	Moody’s	“Aa3” (positive outlook)	S&P	“A+” (positive outlook)		See “RATINGS” contained herein.
	Bonds										
Fitch	“AA” (stable outlook)										
Moody’s	“Aa3” (positive outlook)										
S&P	“A+” (positive outlook)										
	See “RATINGS” contained herein.										

* Preliminary, subject to change.

Authorized Denominations	\$5,000 or any integral multiple thereof.
Book-Entry Only System	The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to a book-entry only system. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Principal of and interest on the Bonds will be paid to Cede & Co., which will distribute such payments to the participating members of DTC for remittance to the beneficial owners of the Bonds. See <u>APPENDIX D</u> herein attached.
No Payment Defaults	The Commonwealth has never failed to make a payment of principal of or interest on its General Obligation Bonds.
Loan and Transfer Agent	Manufacturers and Traders Trust Company, a New York banking corporation, Harrisburg, Pennsylvania, is the Loan and Transfer Agent for the Bonds.
Tax Exemption	<p>In the opinion of Co-Bond Counsel, assuming continuing compliance by the Commonwealth with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and all regulations applicable thereunder, and subject to the conditions described in “TAX MATTERS” herein, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. However, interest on the Bonds is taken into account in determining annual adjusted financial statement income (as defined in Section 56A of the Code) of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the federal alternative minimum tax imposed on such corporations under Section 55(b) of the Code for tax years beginning after December 31, 2022. Other provisions of the Code may affect the purchasers of the Bonds. See “TAX MATTERS” herein.</p> <p>Co-Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. See “TAX MATTERS” herein</p>
Audited Financial Statements	An independent public accounting firm and the Department of the Auditor General jointly audit the Commonwealth’s annual GAAP basis financial statements. The audited Basic Financial Statements are a component of the Commonwealth’s Annual Comprehensive Financial Report (“ACFR”). The ACFRs for recent fiscal years, including the fiscal year ended June 30, 2022, have been filed with the MSRB and are available on EMMA. The ACFRs for the years ended June 30, 2021 and 2022 are incorporated herein by reference. The ACFR for the fiscal year ended June 30, 2023 is expected to be released on or about December 15, 2023 and will be filed with the MSRB on EMMA (www.emma.msrb.org).
Investment Considerations	For certain investment considerations relating to the decision to purchase the Bonds, see “CERTAIN INVESTMENT CONSIDERATIONS” herein.

OFFICIAL STATEMENT
Relating to

\$2,107,775,000*
Commonwealth of Pennsylvania
General Obligation Bonds,
\$1,335,000,000* First Series of 2023
\$772,775,000* First Refunding Series of 2023

INTRODUCTION

This Official Statement of the Commonwealth of Pennsylvania (the “Commonwealth”), including the cover page, inside front cover page and appendices hereof, presents certain information in connection with the issuance of \$2,107,775,000* Commonwealth of Pennsylvania, General Obligation Bonds, consisting of \$1,335,000,000* First Series of 2023 (the “First Series Bonds”) and \$772,775,000* First Refunding Series of 2023 (the “First Refunding Series Bonds” and together with the First Series Bonds, the “Bonds”). The Bonds are being issued to provide funds for and toward the costs of various capital projects and refinancing of certain outstanding indebtedness, each as more fully set forth herein. See “PLAN OF FINANCE” herein.

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.”

The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, securities depository for the Bonds under a book-entry only registration system. See APPENDIX D herein attached.

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

Except where otherwise expressly noted, the financial and other information provided in this Official Statement is generally derived from the records of the Commonwealth. Financial information and other data provided herein are derived from the best information available as of the date of this Official Statement. Because agencies of the Commonwealth have different reporting periods, “as of” dates of certain financial and other information presented herein may vary. All financial information should be considered as unaudited unless otherwise specifically identified. All estimates and assumptions are based on the best information available to the Commonwealth but do not constitute factual information. All estimates of future performance or events constituting “forward-looking statements” may or may not be realized because of a wide variety of economic and other circumstances. Included in such forward-looking statements are numbers and other information from budgets for current and future fiscal years. The references to, and summaries of, constitutional and statutory provisions of the Commonwealth and to bond

* Preliminary, subject to change.

resolutions and other documents are qualified in their entirety by reference to the complete text of such documents and to any judicial interpretations thereof.

For the Auditor General's Certification that the issuance of the Bonds will not exceed the constitutional debt limit, see APPENDIX A. For Government and Financial Information of the Commonwealth, see APPENDIX B. For Selected Data on the Commonwealth see APPENDIX C. Information relating to the Depository Trust Company is attached hereto as APPENDIX D. For a description of the constitutional provisions relating to the Bonds, see APPENDIX E. The proposed form of the opinion of the Office of Attorney General is set forth in APPENDIX F, and the proposed form of the opinion of Co-Bond Counsel is set forth in APPENDIX G. The form of Continuing Disclosure Agreement relating to the Bonds is attached hereto as APPENDIX H. The form of the Notice of Sale relating to the Bonds is attached as APPENDIX I. The order and placement of materials in this Official Statement, including the Appendices hereto, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety.

AUTHORIZATION FOR THE BONDS

The Bonds are authorized and issued pursuant to and in full compliance with the provisions, restrictions and limitations of Section 7 of Article VIII of the Constitution; the laws of the Commonwealth, including but not limited to the Capital Facilities Debt Enabling Act, Act No. 1999-1, approved February 9, 1999, as amended by: Act No. 2002-130, approved October 28, 2002; Act No. 2003-49, approved December 23, 2003; Act No. 2004-67, approved July 4, 2004; Act No. 2005-87, approved December 22, 2005; Act No. 2008-48, approved July 4, 2008; Act No. 2010-48, approved July 7, 2010; Act No. 2013-77, approved October 25, 2013; Act No. 2017-45, approved October 30, 2017; Act No. 2019-43, approved July 2, 2019; and Act No. 2020-25, approved May 29, 2020 (as so amended, the "Capital Facilities Debt Enabling Act") and annual capital budget bills and various bond authorization bills enacted by the General Assembly, including the Capital Budget Act of 2023-2024, Act No. 2023-28, approved November 13, 2023 (the "2023-2024 Capital Budget"), and the resolutions adopted by the Governor, State Treasurer and Auditor General dated November 27, 2023 and December __, 2023 (collectively, the "Resolutions").

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

PLAN OF FINANCE

The Commonwealth is issuing the Bonds for the following purposes:

- (i) \$1,335,000,000* to provide for the construction, acquisition and major rehabilitation of capital facilities projects, as described below under "Capital Facilities Projects" and to finance related costs of issuance for the First Series Bonds; and
- (ii) \$772,775,000* to finance the refunding of all or a portion of the Commonwealth's outstanding General Obligation Bonds set forth on Schedule I hereto (the "Refunded Bonds") and to finance related costs of issuance for the First Refunding Series Bonds.

* Preliminary, subject to change.

Capital Facilities Projects

A portion of the proceeds of the First Series Bonds will be deposited into the Capital Facilities Fund and applied: (a) to pay a portion of the costs of issuance of the First Series Bonds and (b) to pay the financial costs of various capital facilities projects of the Commonwealth, including reimbursement of the State Treasury for previous payments made for costs incurred relating to various capital facilities projects. Of the combined \$1,335,000,000* aggregate principal amount of the First Series Bonds issued for capital facilities projects: (i) \$10,000,000* aggregate principal amount of the First Series Bonds shall be allocated to the Department of General Services to fund public improvement projects, including the purchase of original furniture and equipment, and the related costs of issuance of the First Series Bonds; (ii) \$600,000,000* aggregate principal amount of the First Series Bonds shall be allocated to the Department of General Services to fund public improvement projects for buildings and structures and the related costs of issuance of the First Series Bonds; (iii) \$350,000,000* aggregate principal amount of the First Series Bonds shall be allocated to the Department of Transportation to fund transportation assistance projects and the related costs of issuance of the First Series Bonds; and (iv) \$375,000,000* aggregate principal amount of the First Series Bonds shall be allocated to the Office of the Budget to fund redevelopment assistance projects and the related costs of issuance of the First Series Bonds. Pending application for the above purposes, the aforementioned proceeds of the First Series Bonds will be held by the State Treasurer in the Capital Facilities Fund and invested in accordance with applicable state and federal laws.

Plan of Refunding

The Commonwealth is issuing the First Refunding Series Bonds in the aggregate principal amount of \$772,775,000* to refinance the Refunded Bonds set forth on Schedule I hereto and finance the costs of issuance relating to the First Refunding Series Bonds.

The refunding of the Refunded Bonds will be accomplished by applying a portion of the proceeds from the sale of the First Refunding Series Bonds to the purchase of certain direct obligations of the United States Government to be held in escrow (the "Escrow Obligations"), in an aggregate principal amount which at all times shall be sufficient, together with the interest to accrue thereon, to pay the principal of such Refunded Bonds, the redemption premium, if any, and the interest due and to become due thereon before and on the respective redemption dates or maturity dates as shown on Schedule I (the "Required Deposit"). See "VERIFICATION" herein. Such Escrow Obligations will be deposited with the State Treasurer of the Commonwealth 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 Refunding Series Bonds are issued. The Commonwealth will cause to be provided the requisite notices of redemption in accordance with the documentation relating to the Refunded Bonds, as appropriate, and holders of the Refunded Bonds should rely solely on such redemption notices for purposes of the redemption of the Refunded Bonds.

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* Preliminary, subject to change.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth estimated sources and uses of the proceeds of the Bonds.

<u>Sources of Funds</u>	<u>First Series Bonds</u>	<u>First Refunding Series Bonds</u>	<u>Total</u>
Principal Amount of the Bonds [Net Original Issue Premium/Discount]			
Total Sources of Funds			
<u>Uses of Funds</u>			
Deposit to Capital Facilities Fund [Deposit to Escrow Fund]			
Costs of Issuance*			
Total Uses of Funds			

*Includes Underwriters’ discount; legal, rating agency, verification agent, Loan and Transfer Agent and financial advisor fees; and other costs of issuing the Bonds.

THE BONDS

General

The Bonds will be issued in authorized denominations of \$5,000 or any integral multiple thereof, be dated their date of issuance and delivery and 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 March 1 and September 1, commencing March 1, 2024*, 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 Bonds will be issued in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”) pursuant to DTC’s Book-Entry Only System. See, APPENDIX D herein attached. The Bonds provide that each registered owner, Beneficial Owner, DTC Participant or Indirect Participant (as such terms are defined in APPENDIX D) 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.

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 each February 15 and August 15, respectively (whether or not a business day) (each, a “Record Date”). Any interest on any Bond not timely paid or duly provided for shall cease to be payable to the person who is the registered owner as of the regular Record Date, and shall be payable to the person who is the registered owner at the close of business on a special record date for the payment of such defaulted interest. A special record date shall be a date not more than fifteen nor less than ten days prior to the date of the proposed payment and shall be fixed by the Loan and Transfer Agent whenever moneys become available for payment of the defaulted interest. Notice of a special record date shall be given to registered owners of the Bonds not less than fifteen days prior thereto.

Whenever the due date for payment of interest on or principal of the Bonds or the date fixed for redemption of any Bond shall be on a Saturday, a Sunday, a legal holiday or a day on which banks in the Commonwealth are required or authorized by law (including by executive order) to close, then payment of

such interest, principal or redemption price need not be made on such date, but may be made on the next succeeding day which is not a Saturday, a Sunday, a legal holiday, or a day upon which banks in the Commonwealth are required or authorized by law (including by executive order) to close, with the same force and effect as if made on the due date for such payment of principal, interest or redemption price, and no interest shall accrue thereon for any period after such due date.

Redemption Provisions

Optional Redemption. The First Series Bonds, or portions thereof in integral multiples of \$5,000, maturing on and after September 1, 2034* are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after September 1, 2033*, 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.

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

Mandatory Sinking Fund Redemption. Bidders may elect to structure their bid to include term bonds, which term bonds, if selected by the bidder, will be subject to mandatory sinking fund redemption prior to maturity, in the years and amounts shown in the Preliminary Schedule of Maturities contained in APPENDIX I – NOTICE OF SALE upon payment of 100% of the principal amount of such Bonds to be redeemed, together with accrued interest to the date fixed for redemption. Bonds within a maturity of a particular series to be redeemed shall be selected by lot by the Loan and Transfer Agent. If the Bonds are awarded and no term bonds are designated in the applicable winning bid, such Bonds will mature serially as shown in the in the Preliminary Schedule of Maturities contained in APPENDIX I. See “MANDATORY SINKING FUND REDEMPTION AT THE OPTION OF THE BIDDER” in the Notice of Sale attached hereto as APPENDIX I for additional information.

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 (5th) business day prior to such mailings; provided, however, that any defect in the notice or in the mailing thereof with respect to any registered owner shall not affect the validity of the proceedings for such redemption as to any other registered owner. Deposit of any such notice in the United States mail shall constitute constructive receipt of such notice by the registered owner to whom such notice is sent. Notice having been given as aforesaid and provision having been made for redemption from funds on deposit with the Loan and Transfer Agent, no interest on 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

* Preliminary, subject to change.

thereafter have no further right except to receive payment of the redemption price plus accrued interest to the redemption date.

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

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

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ANNUAL DEBT SERVICE REQUIREMENTS

As of June 30, 2023

(In Thousands)

The following table sets forth the aggregate debt service requirements for all outstanding General Obligation Bonds but does not reflect the issuance of the Bonds or the Refunding of the Refunded Bonds.

Fiscal Year Ending	Aggregate Debt Service on bonds outstanding	First Series of 2023		First Refunding Series of 2023		Total*
		Principal	Interest	Principal	Interest	
2024	\$ 1,363,710					\$ 1,363,710
2025	1,292,443					1,292,443
2026	1,290,440					1,290,440
2027	1,226,933					1,226,933
2028	1,121,770					1,121,770
2029	1,014,895					1,014,895
2030	970,054					970,054
2031	777,832					777,832
2032	770,021					770,021
2033	644,075					644,075
2034	570,592					570,592
2035	469,176					469,176
2036	390,982					390,982
2037	328,690					328,690
2038	234,284					234,284
2039	234,674					234,674
2040	135,697					135,697
2041	98,658					98,658
2042	53,531					53,531
2043	51,250					51,250
Total*	\$13,039,706					\$13,039,706

* Totals may not add due to rounding.

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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 Bonds are a first priority obligation of the Commonwealth. 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 section “AUTHORIZATION FOR THE BONDS” above. Principal of and interest payments on the Bonds will be made from the General Fund.

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

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

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)
August 31, 2023
(In Millions)

Average Annual Tax Revenues Fiscal Years ended June 30, 2019-2023.....	\$48,339.8
Times 1.75	84,594.6
Less: Net Debt Outstanding ^(b)	9,183.1
Debt Issuable Within Limit.....	\$75,411.5

Source: Office of the Budget.

^(a) As certified by the Auditor General on August 31, 2023.

^(b) After credit for refinancing of Refunded Bonds.

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

Table 2
Pro Forma Remaining Debt Authorized After Issuance of the Bonds
(In Millions)

Capital Facilities Projects	Debt Authorized	Issued^(a)	Remaining Debt Authorized	Remaining Debt Authorized After Issuance of the Bonds
Buildings and Structures	\$61,758.3	\$14,048.5	\$47,709.8	\$47,109.8
Furniture and Equipment	2,476.5	546.5	1,930.0	1,920.0
Transportation Assistance	16,039.6	4,736.9	11,302.7	10,952.7
Redevelopment Assistance	77,694.0	5,474.8	72,219.2	71,844.2
Community Colleges	35.8	28.0	7.8	7.8
Highway and Highway Bridge	43,341.3	3,287.5	40,053.8	40,053.8
Flood Control	1,255.2	65.8	1,189.4	1,189.4
Total	<u>\$202,600.7</u>	<u>\$28,188.0</u>	<u>\$174,412.7</u>	<u>\$173,077.7</u>

Source: Office of the Budget.

^(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 principal amount of debt currently authorized by the 2023-2024 Capital Budget is as shown in Table 3 below.

Table 3
Pro Forma Remaining Debt After Issuance of the Bonds^(a)
(In Millions)

Capital Facilities Projects	Limits	Debt Issued to Date	Remaining Issuable Within Limit	Remaining Debt Authorized After Issuance of the Bonds
Buildings and Structures	\$600	\$0	\$600	\$0
Furniture and Equipment	10	0	10	0
Transportation Assistance	350	0	350	0
Redevelopment Assistance	375	0	375	0
Flood Control	0	0	0	0
Total	<u>\$1,335</u>	<u>\$0</u>	<u>\$1,335</u>	<u>\$0</u>

Source: Office of the Budget.

^(a) The Bonds are being issued under the debt limits of the 2023-2024 Capital Budget, which became effective on November 13, 2023.

After issuance of the Bonds under the 2023-2024 Capital Budget, no debt will remain authorized and unissued thereunder. See “PLAN OF FINANCE – Capital Facilities Projects.”

For a discussion of the Commonwealth’s outstanding debt and projected future issuance of general obligation debt, see APPENDIX B – GOVERNMENT AND FINANCIAL INFORMATION OF THE COMMONWEALTH – “Outstanding Indebtedness of the Commonwealth” herein attached.

THE COMMONWEALTH

General

The Commonwealth of Pennsylvania (the “Commonwealth” or the “State” or “Pennsylvania”) was the second state admitted to the United States of America, founded in 1787. The Commonwealth ranks ninth in the United States in terms of population and 33rd in terms of total area.

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

Name	Office	Term Expires
Josh Shapiro	Governor	January 17, 2027
Austin Davis	Lieutenant Governor	January 17, 2027
Michelle Henry	Attorney General	January 21, 2025
Stacy Garrity	State Treasurer	January 21, 2025
Timothy DeFoor	Auditor General	January 21, 2025

COMMONWEALTH GOVERNMENT, FINANCIAL PERFORMANCE AND OTHER OBLIGATIONS

Government and Fiscal Administration

The Commonwealth’s fiscal year begins July 1 and ends June 30. For example, fiscal year 2023 refers to the fiscal year ended June 30, 2023. The principal operating funds of the Commonwealth are the General Fund, the Motor License Fund and the State Lottery Fund. The Commonwealth also has a Budget Stabilization Reserve Fund, which is used to manage around emergencies involving the health, safety or welfare of the residents of the Commonwealth or downturns in the economy resulting in significant unanticipated revenue shortfalls. For a description of the funds, including the Budget Stabilization Reserve Fund, accounting practices and financial reporting, and a discussion of how the funds are invested, see APPENDIX B – GOVERNMENT AND FINANCIAL INFORMATION OF THE COMMONWEALTH – “Commonwealth Financial Structure and Procedures” herein attached. For more information regarding employees of the Commonwealth, see APPENDIX B – GOVERNMENT AND FINANCIAL INFORMATION OF THE COMMONWEALTH – “Commonwealth Government.” For more information regarding the branches of government, fiscal administration, and budgetary process, see APPENDIX B – GOVERNMENT AND FINANCIAL INFORMATION OF THE COMMONWEALTH – “Commonwealth Government and Fiscal Administration.”

Financial Performance

For discussion of the Commonwealth’s Financial Performance, including budgetary information, and the revenues of the General Fund, Motor License Fund and State Lottery Funds, which are the

Commonwealth's three principal funds, see APPENDIX B – GOVERNMENT AND FINANCIAL INFORMATION OF THE COMMONWEALTH – “Commonwealth Financial Performance” and “ – Commonwealth Revenues and Expenditures.”

Annual Comprehensive Financial Reports

An independent public accounting firm and the Department of the Auditor General jointly audit the Commonwealth's annual GAAP basis financial statements. The audited Basic Financial Statements are a component of the Commonwealth's Annual Comprehensive Financial Report (“ACFR”). The ACFRs for recent fiscal years, including the fiscal year ended June 30, 2022, have been filed with the MSRB (hereinafter defined) and are available on EMMA (hereinafter defined). The ACFRs for the years ended June 30, 2021 and 2022 are incorporated herein by reference.

The ACFR for the fiscal year ended June 30, 2023 (the “2023 ACFR”) is expected to be released on or about December 15, 2023 and will be filed with the MSRB on EMMA (www.emma.msrb.org). Within 240 days after the end of the fiscal year ended June 30, 2023, the Commonwealth will provide updated financial information and operating data of the kind contained in APPENDIX B to reflect the audited financial information contained in the 2023 ACFR, all in accordance with the requirements of its Continuing Disclosure Agreement attached hereto as APPENDIX H.

Other Obligations of the Commonwealth

The Commonwealth has various state-related obligations, including with respect to pension obligations and other post-employment benefits or debt issued by the Pennsylvania Housing Finance Agency to provide housing for low and moderate income families, for instance. For a discussion of such other obligations, see APPENDIX B – GOVERNMENT AND FINANCIAL INFORMATION OF THE COMMONWEALTH – “Other State-Related Obligations” and “ – Other State-Related Obligations – Pensions and Retirement.” In addition, certain state-created organizations have statutory authorization to issue revenue funded debt that is backed by the assets of, or revenues derived from, the various projects so financed and is not a statutory or moral obligation of the Commonwealth. However, some of these organizations are indirectly dependent upon Commonwealth operating appropriations. For a discussion of such other obligations, see APPENDIX B – GOVERNMENT AND FINANCIAL INFORMATION OF THE COMMONWEALTH – “Government Authorities and Other Organizations” attached hereto.

CERTAIN INVESTMENT CONSIDERATIONS

Introduction

The purchase of the Bonds involves numerous investment risks, some of which are referred to in this Official Statement. No representation is made that the risks described or referred to in this Official Statement constitute all of the risks associated with investing in the Bonds. Accordingly, prior to making a decision to invest in the Bonds, each prospective purchaser thereof should make an independent evaluation of all of the information presented in this Official Statement, including the Appendices, and should review other pertinent information.

General

The Bonds, like all general obligations of state governments, are subject to changes in value due to changes in the condition of the market for taxable and tax-exempt obligations or changes in the financial position of the Commonwealth.

It is possible under certain market conditions, or if the financial condition of the Commonwealth should change, that the market price of the Bonds could be adversely affected. With regard to the risk involved in a downward revision, or withdrawal of the ratings for the Bonds, shown on the cover hereof, see “RATINGS” herein.

Prospective purchasers of the Bonds should consult their own tax advisers prior to their purchase of the Bonds as to the impact of the Internal Revenue Code of 1986, as amended (the “Code”) upon their acquisition, holding or disposition of the Bonds.

Market for the Bonds

Subject to prevailing market conditions, the Underwriters intend, but are not obligated, to make a market for the Bonds. There is no assurance that a secondary market for the Bonds will develop or if developed will not be disrupted by certain events impacting the market for the Bonds. Consequentially, investors may not be able to resell the Bonds should they need or wish to do so for emergency or other purposes.

Prepayment of Principal

The Commonwealth may prepay certain principal of the First Series Bonds without penalty. See, “THE BONDS – Redemption Provisions” herein. If such First Series Bonds were to be pre-paid before scheduled maturity, the investor would not receive the scheduled yield through the maturity date. In such a prepayment situation there is no guarantee that the investor could reinvest the proceeds and receive a comparable yield for the period remaining until the scheduled maturity of the First Series Bonds. The investor may therefore receive a lower total return for the period beginning on the date of purchase through the scheduled date of maturity than anticipated.

General Economic Conditions

General economic conditions may affect the Commonwealth’s financial condition and results of operations. A general economic downturn may lead to a reduction in tax revenues. General economic turmoil also may lead to an investment market downturn, which may result in asset market values (including pension plan assets) suffering a decline and significant volatility. For instance, a decline in the market values of the Commonwealth’s pension plans assets could increase required cash contributions to these plans from the General Fund and increased pension expenses in subsequent years.

Sustainability

The effects of climate change can already be observed in Pennsylvania. With heat waves, droughts, diminished air quality, and flooding from major precipitation events, climate change impacts the environment, public health, and the economy. The average annual temperature statewide is expected to rise and instances of extreme heat days are expected to occur more frequently. While the Commonwealth is unable to predict how climate change will affect its financial resources, it believes regular assessments and planning will help Pennsylvania remain resilient in the face of climate uncertainties.

The Pennsylvania Climate Change Act, which was passed in 2008, requires the Department of Environmental Protection (“DEP”) to develop an inventory of greenhouse gas (“GHG”) emissions and update it annually; administer a Climate Change Advisory Committee; set up a voluntary registry of GHG emissions; prepare a Climate Change Impacts Assessment and provide an update once every three years; and prepare a Climate Change Action Plan and provide an update once every three years. Additionally, a 2019 Executive Order created the GreenGov Council, which brings Pennsylvania’s government agencies

together to encourage incorporation of environmentally sustainable practices into the Commonwealth's policy, planning, operations, procurement, and regulatory functions. The initiative has resulted in at least thirty construction or major renovation facilities projects incorporating high-performance building criteria and in a reduction and offsetting of the Commonwealth's energy use.

To address inland flooding, one of the greatest climate risks in Pennsylvania, DEP operates one of the few state-level flood protection programs, which evaluates flood prone areas and designs stream improvements and protection facilities to mitigate flooding. DEP works closely with federal partners at the United States Department of Agriculture and the US Army Corps of Engineers to coordinate federal flood control and bank stabilization projects. The State Water Plan continues to provide DEP with climate change adaptation strategies that address the likely increase in major inland flooding events and expected increased periods of drought.

Despite the Commonwealth's planning efforts, due to uncertainties in the timing, magnitude and long-term effects of climate change, the extent of climate change impacts on the Commonwealth, its operations and its financial performance are indeterminate at this time. No assurance can be given that the Commonwealth will not encounter negative environmental and infrastructural consequences as a result of climate change and that such events will not have a material adverse effect on its operations or financial condition.

Cybersecurity

Information technology systems are vulnerable to a range of cybersecurity-related risks. These risks include, without limitation, data breaches and system compromises resulting from, ransomware attacks, attacks from hackers, email phishing campaigns, computer viruses, physical or electronic break-ins, insider threats, system misconfigurations, and other methods of compromise that have become increasingly sophisticated. Such events or issues could lead to the disclosure of personally identifiable information or other confidential or proprietary information, could have an adverse effect on the ability of the Commonwealth to operate, and could result in significant exposure and substantial costs to the Commonwealth. The Enterprise Information Security Office ("EISO") of the Commonwealth follows industry best practices, establishes the cybersecurity strategy, standards, and enterprise cybersecurity posture for Commonwealth IT resources and agencies. The office seeks to prevent and defend against cyber-attacks on critical infrastructures, reduce the Commonwealth's vulnerability to cyber-attacks, minimize damage and recovery time from attacks that may occur, and continuously promote security awareness through education and information sharing, thereby limiting risks and exposure. EISO serves as a central point for coordination and communication among agency cybersecurity officers and provides guidance and direction involving information security architecture, policies, directives, standards, and guidelines.

Despite these measures, no assurance can be given that the Commonwealth will not be exposed to cyber threats or attacks or that such incidents will not have a material adverse effect on the operations and financial condition of the Commonwealth.

LITIGATION

Based on an inquiry with the Commonwealth's Office of the Attorney General and Office of General Counsel, there is as of the date of this Official Statement, no litigation pending against the Commonwealth in any way restraining or enjoining the sale, issuance or delivery of the Bonds, or in any manner challenging the validity of the Bonds, the security for the Bonds, the Resolutions, the collection of revenues pledged for the payment of the Bonds or the Commonwealth's long-term financial condition.

The Commonwealth and its agencies are parties to routine legal proceedings that normally occur as a consequence of regular governmental operations. At any given point, there are lawsuits involving the Commonwealth or its agencies that could, depending on the outcome of the litigation or the terms of the settlement agreement, impact the Commonwealth's budget and expenditures to one degree or another.

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 brief descriptions of certain cases affecting the Commonwealth in APPENDIX B – GOVERNMENT AND FINANCIAL INFORMATION OF THE COMMONWEALTH – “Litigation” herein. While the ultimate outcome and fiscal impact, if any, on the Commonwealth of pending and threatened proceedings and claims are not currently predictable, adverse determination in certain of them could have a programmatic or budgetary impact on the Commonwealth.

TAX MATTERS

Federal Income Tax Treatment

In the opinion of Co-Bond Counsel, under existing law, and assuming continuing compliance by the Commonwealth with certain certifications and agreements relating to the use of the Bond proceeds and covenants to comply with provisions of the Code and all applicable regulations thereunder, now or hereafter enacted, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. However, interest on the Bonds is taken into account in determining annual adjusted financial statement income (as defined in Section 56A of the Code) of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the federal alternative minimum tax imposed on such corporations under Section 55(b) of the Code for tax years beginning after December 31, 2022.

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

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

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

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

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

Risk of Future Legislative Changes and/or Court Decisions

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

Proposals to alter or eliminate the exclusion of interest on tax-exempt bonds from gross income for some or all taxpayers have been made in the past and may be made again in the future. Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISERS REGARDING ANY PROPOSED FEDERAL TAX LEGISLATION, AS TO WHICH CO-BOND COUNSEL EXPRESS NO OPINION.

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

Original Issue Discount and Original Issue Premium

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

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

State Tax Exemption

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

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

Other

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

RATINGS

Municipal bond ratings of “AA” (stable outlook), “Aa3” (positive outlook) and “A+” (positive outlook) have been assigned to the Bonds by Fitch Ratings, Inc. (“Fitch”), Moody’s Investor Service, Inc. (“Moody’s”) and S&P Global Ratings (“S&P”), respectively.

The ratings reflect only the views of the respective rating agencies. Any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch, One State Street Plaza, New York, New York 10004; Moody’s, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; and S&P, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. A security rating is not a recommendation to buy, sell or hold securities. There is no assurance such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the 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.”

COMPETITIVE SALE OF BONDS

After competitive bidding on _____, 2023, the Bonds were awarded as follows:

The _____ Bonds maturing on or before _____ (Bid Group A identified in the Notice of Sale) were sold at a competitive sale on _____, and awarded to _____ (the “Bid Group A Bonds Initial Purchaser”). The Bid Group A Bonds Initial Purchaser has agreed to purchase the Bid Group A Bonds at a price of \$ _____, representing the principal amount of the Bid Group A Bonds, plus net original issue premium of \$ _____, less a Bid Group A Bonds Initial Purchaser’s discount of \$ _____.

The _____ Bonds maturing on or before _____ (Bid Group B identified in the Notice of Sale) were sold at a competitive sale on _____, and awarded to _____ (the “Bid Group B Bonds Initial Purchaser”). The Bid Group B Bonds Initial Purchaser has agreed to purchase the Bid Group B Bonds at a price of \$ _____, representing the principal amount of the Bid Group B Bonds, plus net original issue premium of \$ _____, less a Bid Group B Bonds Initial Purchaser’s discount of \$ _____.

The _____ Bonds maturing on or before _____ (Bid Group C identified in the Notice of Sale) were sold at a competitive sale on _____, and awarded to _____ (the “Bid Group C Bonds Initial Purchaser”). The Bid Group C Bonds Initial Purchaser has agreed to purchase the Bid Group C Bonds at a price of \$ _____, representing the principal amount of the Bid Group C Bonds, plus net original issue premium of \$ _____, less a Bid Group C Bonds Initial Purchaser’s discount of \$ _____.

The _____ Bonds maturing on or before _____ (Bid Group D identified in the Notice of Sale) were sold at a competitive sale on _____, and awarded to _____ (the “Bid Group D Bonds Initial Purchaser”). The Bid Group D Bonds Initial Purchaser has agreed to purchase the Bid Group D Bonds at a price of \$ _____, representing the principal amount of the Bid Group D Bonds, plus net original issue premium of \$ _____, less a Bid Group D Bonds Initial Purchaser’s discount of \$ _____.

The Notice of Sale, attached hereto as APPENDIX I, provides that the initial purchaser of each Bid Group will purchase all of the Bonds of the applicable Bid Group awarded to such Initial Purchaser if it purchases any of them. The obligations to make such purchases are subject to certain terms and conditions set forth in the Notice of Sale, the approval of certain legal matters by counsel and certain other conditions. The obligation of each Initial Purchaser to purchase the Bonds of a Bid Group awarded to it, and the obligation of the Commonwealth to sell such Bonds, is independent of such obligations with respect to the other Bid Groups and the other Initial Purchasers.

Prior to delivery of the Bonds, each Initial Purchaser will execute and deliver to the Commonwealth a certificate to the effect that such Initial Purchaser has provided to the Commonwealth the initial offering prices or yields on the Bonds awarded to such Initial Purchaser as set forth in the maturity table shown on the inside front cover hereof. Each Initial Purchaser may offer and sell such Bonds to certain dealers and others at prices lower than the offering prices in the maturity table shown on the inside front cover hereof. The public offering prices stated may be changed from time to time by the applicable Initial Purchasers.

VERIFICATION

PFM Asset Management LLC (the “Verification Agent”) will deliver to the Commonwealth, on or before the date of the delivery of the First Refunding Series Bonds, its report (the “Verification Report”) indicating that it has verified the mathematical accuracy of the information provided by the Commonwealth and its representatives with respect to the refunding requirements of the Refunded Bonds. Included within the scope of its engagement will be a verification of (a) the mathematical accuracy of the computations indicating that the cash and maturing principal of the securities, along with initial cash deposits, will be sufficient to meet the scheduled payment of interest on the Refunded Bonds until redemption and the payment of the redemption price of the Refunded Bonds on their respective redemption dates; and (b) the mathematical accuracy of the computations supporting the conclusion of Co-Bond Counsel that the First Refunding Series Bonds are not “arbitrage bonds” under the Code and the regulations promulgated thereunder.

LEGALITY FOR INVESTMENT

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

CO-FINANCIAL ADVISORS

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

LEGAL MATTERS

All legal matters incident to the authorization and issuance of the Bonds are subject to the approval of the Office of Attorney General of the Commonwealth of Pennsylvania, and McNeese Wallace & Nurick LLC of Harrisburg, Pennsylvania, Law Office of Nathaniel M. Holmes, LLC of Harrisburg, Pennsylvania, and Gosfield Law LLC of Gladwyne, Pennsylvania, Co-Bond Counsel. A copy of the opinion of Co-Bond Counsel will accompany the Bonds delivered to DTC. Copies of the opinion of the Office of Attorney General, together with additional copies of the opinion of Co-Bond Counsel, will be available at the time of delivery of the Bonds. Proposed forms of these opinions are included as Appendix F and Appendix G respectively.

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

CONTINUING DISCLOSURE

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

“MSRB”) through its Electronic Municipal Market Access system (“EMMA”) in an electronic format prescribed by the MSRB. The specific nature and timing of filing the Annual Report and each Listed Event Notice, and other details of the Commonwealth’s undertakings are more fully described in APPENDIX H – FORM OF CONTINUING DISCLOSURE AGREEMENT attached hereto.

The following disclosure is being provided by the Commonwealth for the sole purpose of assisting the Underwriters in complying with the Rule: The Commonwealth previously entered into continuing disclosure undertakings, as an “obligated person” under the Rule (the “Undertakings”). In the previous five year period beginning on June 30, 2018 and ending on June 30, 2023 (the “Compliance Period”), the Commonwealth has, in several instances during the Compliance Period, failed to comply with certain provisions of the Undertakings, including: (a) failing to timely file certain annual financial information and/or operating data, (b) failing to provide certain required annual financial information and operating data in its annual filings, and (c) failing to file or timely file certain notices. The foregoing description of instances of non-compliance by the Commonwealth with the Undertakings should not be construed as an acknowledgement by the Commonwealth that any such instance was material.

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. Natalia Dominguez Buckley, Harrisstown 2, 333 Market Street, 18th Floor, Harrisburg, Pennsylvania 17101-2210 (Telephone (717) 787-7342). Recent Annual Comprehensive Financial Report summaries of enacted fiscal year budgets and certain other information are available in the Budget and Financial Reports section of the Office of the Budget’s web site, <http://www.budget.state.pa.us>.

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

Josh Shapiro, Governor

Stacy Garrity, State Treasurer

Timothy L. DeFoor, Auditor General

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SCHEDULE I
REFUNDED BONDS*

<u>Principal Amount to be Refunded</u>	<u>Designated Name</u>	<u>Issue Date</u>	<u>Bonds Maturing on</u>	<u>Date of Redemption</u>
\$378,525,000	First Series of 2013	April 11, 2013	April 1, 2027 and 2029 - 2033	March 19, 2024
\$466,865,000	Second Series of 2013	November 7, 2013	October 15, 2024 - 2033	March 19, 2024

*Preliminary, subject to change.

APPENDIX A

CERTIFICATE OF THE AUDITOR GENERAL

**AUDITOR GENERAL'S
CERTIFICATE**

Pursuant to
ARTICLE VIII, Section 7(a)(4)
of the
CONSTITUTION OF PENNSYLVANIA
and
Section 304 of the Capital Facilities Debt Enabling Act

To the Governor and The General Assembly:

I, Timothy L. DeFoor, Auditor General of the Commonwealth of Pennsylvania, pursuant to Article VIII, Section 7(a)(4) of the Constitution of the Commonwealth of Pennsylvania and Section 304 of the 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 August 31, 2023.	\$ 48,339,805,509
(i) The amount of outstanding net debt as of the end of the preceding fiscal year.	\$ 9,510,380,044
(ii) The amount of such net debt as of August 31, 2023.	\$ 9,183,103,882
(iii) The difference between the limitation upon all net debt outstanding as provided in Article VIII, Section 7(a)(4) of the Constitution of the Commonwealth of Pennsylvania and the amount of such net debt as of the date of August 31, 2023.	\$ 75,411,555,759
(iv) The amount of such debt scheduled to be repaid during the remainder of the current fiscal year.	\$ 513,035,000
(v) The amount of debt authorized by law to be issued, but not yet incurred.	\$ 174,412,640,344
(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 the Commonwealth of Pennsylvania.	\$ 7,257,247,811

IN TESTIMONY WHEREOF, I have hereto set my hand and affixed the seal of the Auditor General, this 31st day of August 2023.



Timothy L. DeFoor
Timothy L. DeFoor
Auditor General

APPENDIX B

GOVERNMENT AND FINANCIAL INFORMATION
OF THE COMMONWEALTH

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COMMONWEALTH GOVERNMENT

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

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Josh Shapiro	Governor	January 17, 2027
Austin Davis	Lieutenant Governor	January 17, 2027
Michelle Henry	Attorney General	January 21, 2025
Stacy Garrity	State Treasurer	January 21, 2025
Timothy DeFoor	Auditor General	January 21, 2025

Commonwealth Employees

Employees are permitted to organize and bargain collectively. As of June 30, 2022, 79.6 percent of full-time salaried employees, under the Governor’s jurisdiction, were covered by collective bargaining agreements or memoranda of understanding, with approximately 38.6 percent of State employees represented by the American Federation of State, County and Municipal Employees (“AFSCME”). In September 2023, the Commonwealth signed a new agreement with AFSCME for a four-year pact effective July 1, 2023 through June 30, 2027. As AFSCME is the union representing the most employees, they generally set the economic pattern that other union contracts follow. The contract agreed upon with AFSCME provides a general pay increase in each contract year, which totals 11.25 percent, as well as a service increment each contract year. This results in a maximum total of 20.25 percent over the contract term. As of November 2023, the Commonwealth has reached agreement, or tentative agreement, with 11 of the 15 unions who had expiring contracts in 2023. These agreements follow the AFSCME economic pattern. It is also noted that the G4 bargaining unit (with approximately 1,740 employees across multiple agencies), previously represented by AFSCME, recently elected new union representation (FOP Lodge #92) and negotiations are ongoing to establish a collective bargaining agreement with this union. It is anticipated that the remaining unions with which the Commonwealth is still bargaining will also follow the AFSCME economic pattern. Collectively, all these unions represent approximately 59 percent of the workforce.

Interest arbitration awards typically dictate the employee salary increases and employee/employer health care contributions to be provided to, or on behalf of, employees covered by six public safety unions who possess the statutory right under Act 111 (1968) or Act 195 (1970) to have a neutral arbitrator decide the terms of a contract when parties reach impasse. In 2021, a negotiated contract was reached with the Pennsylvania State Troopers Association that expires on June 30, 2024. The Pennsylvania State Corrections Officers Association is currently working under a contract issued by an interest arbitrator which expires on June 30, 2024. These two contracts, which apply to approximately 20 percent of the overall workforce, provide a general pay increase in each contract year totaling 5.5 percent and annual service increments for a maximum total of 14.5 percent over the three-year contract term. The Fraternal Order of Police (FOP) Lodge 114 representing the law enforcement units of the Pennsylvania Game Commission and the Pennsylvania Fish & Boat Commission along with the Pennsylvania State Rangers Association are also operating under contracts that expire June 30, 2024. Said contracts provide a general pay increase and a restructured pay schedule that grant employees an increase in each of the three contract years totaling 7.75 percent and service increments in two years for a maximum total of 14.5 percent over the three-year contract term. The FOP Lodge 85, who represent the Capitol Police, are currently working under the terms of a contract that expired June 30, 2023. A successor agreement that is expected to follow the AFSCME pattern is currently being negotiated; however, as they have the right to proceed to interest arbitration, following the AFSCME pattern cannot be guaranteed at this time.

Tables 1 through 3 used in connection the Commonwealth’s issuance of general obligation debt are not included in this APPENDIX B. The tables have not been renumbered herein to allow for consistency in

reporting annual data and financial information. Tables 1 through 3 can be found in the front part of this Official Statement to which this APPENDIX B is appended.

Table 4 presents a summary of filled salaried positions and employees under the Governor’s jurisdiction for 2018 through 2022.

Table 4
Filled Salaried Positions and Employees
Under Governor’s Jurisdiction^(a)
2018–2022

<u>As of July 1</u>	<u>Total Full and Part Time Filled Salaried Positions</u>	<u>Total Full Time Salaried Positions</u>	<u>Union Positions</u>	<u>Union Positions As a % of Total Filled Salaried Positions</u>
2018	72,074	71,848	58,315	81.2
2019	72,429	72,244	58,482	80.9
2020	72,420	72,209	58,220	80.6
2021	71,801	71,606	57,553	80.4
2022	70,687	70,541	56,171	79.6

Source: Office of Administration, 2023 State Government Workforce Statistics.

^(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.

COMMONWEALTH GOVERNMENT AND FISCAL ADMINISTRATION

A general organization chart of the three separate branches of Commonwealth government is included at the end of this section.

Legislative Branch

The legislative branch consists of the General Assembly and its staff. The General Assembly is bicameral, being comprised 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 begins its two-year sessions on the first Tuesday of January following general elections. Special sessions may be called by the Governor on petition from the majority of members in each chamber or whenever the Governor determines that public interest so requires. Legislative leadership includes majority and minority leaders in each chamber, a President Pro Tempore of the Senate and a Speaker of the House of Representatives.

Executive Branch

The Executive Branch is headed by five elected officials and encompasses 17 departments and 36 independent commissions, boards, authorities and agencies.

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

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

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

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

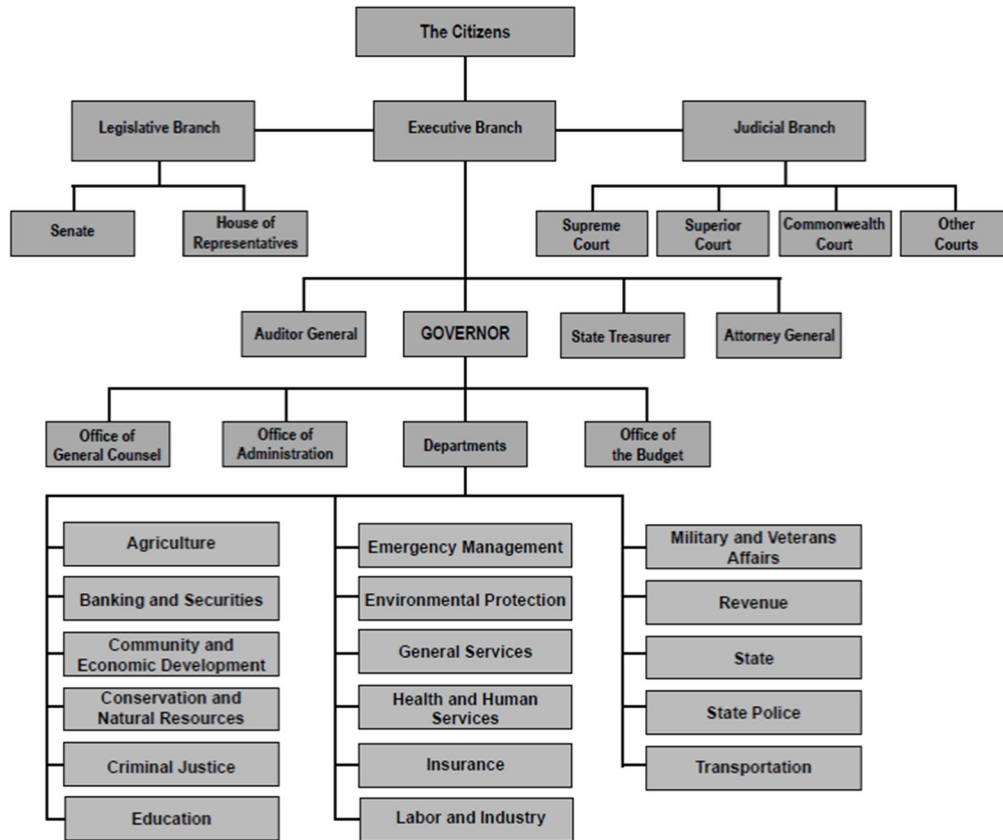
Activities of State government are also conducted by various independent commissions, boards, authorities and agencies created by statute and not under the direct jurisdiction of the executive or legislative branches.

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.

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Commonwealth of Pennsylvania Organization Chart



AGENCIES

Higher Education Assistance
Interstate Agencies

AUTHORITIES

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

BOARDS

Claims
Environmental Hearing
Gaming Control
Finance and Revenue
Liquor Control
Milk Marketing
Municipal Retirement
Pardons
Public School Employees' Retirement
State Employees' Retirement
Tax Equalization

COMMISSIONS

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

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Fiscal Organization

Each branch of the Commonwealth's government is responsible for its respective fiscal operations subject to restrictions embodied in the Pennsylvania Constitution ("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 and consent 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 Commonwealth general obligation debt. OA is responsible for personnel policy and programs, management policy and organizational structure, data processing service, and electronic data processing policy and planning. The Treasury Department receives, invests, and disburses all funds and maintains central cash records. The Department of Revenue administers the collection of most taxes. The Department of the Auditor General oversees the examination of most financial transactions.

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

The Budgetary Process

The Commonwealth operates on a fiscal year beginning July 1 and ending June 30. For example, "fiscal year 2023" refers to the fiscal year ended on June 30, 2023.

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. Departments 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 analyses and information from selected departments and econometric analyses are utilized. The Commonwealth subscribes to economic forecasts prepared by the economic forecasting company Global Insight for national and Pennsylvania economic data that are used to estimate economically sensitive Commonwealth revenues. Other econometric forecasts are also consulted.

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

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

- (b) a capital budget for the ensuing fiscal year setting forth in detail proposed expenditures to be financed from the proceeds of obligations of the Commonwealth or of its agencies or authorities or from operating funds; and
- (c) a financial plan for not less than the succeeding five fiscal years, which includes for each year (i) projected operating expenditures classified by department or agency and by program, and estimated revenues by major categories from existing and additional sources, and (ii) projected expenditures for capital projects specifically itemized by purpose and their proposed sources of financing.

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

The Governor is required to submit the proposed budget as soon as possible after the organization of the General Assembly, but not later than the first full week in February, except in the Governor's first year of office, wherein the budget proposal is due in March. 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 committees of both of the chambers. Hearings are held on the General Appropriation Bill and the other bills collectively constituting the budget. In an iterative process, bills are reported from committee to floor and considered in and between chambers.

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

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

Pursuant to the Pennsylvania 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; lapsed funds are not available for re-appropriation until they lapse.

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 the 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 the Budget is empowered to set personnel levels for departments. Departments are required to

provide monthly personnel data so that the Commonwealth's computerized data file on personnel levels can be maintained and used to monitor the Commonwealth's largest operating expense.

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

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

In the event that the General Assembly fails to pass, or the Governor fails to sign, a General Appropriation act prior to July 1 of any fiscal year, the 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 institution services.

Accounting and Budgetary Controls

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

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

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

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

Departments are prevented by the centralized comptroller from incurring obligations in excess of their unexpended individual appropriations by an encumbrance system. Encumbrance control prevents spending beyond remaining individual appropriation balances. When a commitment or obligation is incurred, for example, when a contract or purchase order is signed, the required portion of the corresponding appropriation

is reserved. This reserving of funds is called the encumbrance procedure. All obligations anticipating future disbursement of cash in the fiscal year require an encumbrance, except for debt service payments. Since a debt service appropriation is used for no purpose other than debt service, an encumbrance is not necessary.

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

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

Audits

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

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

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

COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES

The Constitution and the laws of the Commonwealth require all payments from the State Treasury except for refunds of taxes, licenses, fees and other charges to be made only by duly enacted appropriations. Amounts appropriated from a fund may not exceed the fund's 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, if not spent or encumbered by the end of the fiscal year, are returned to the unappropriated surplus of the fund categorized as a lapse. The Commonwealth's fiscal year begins July 1 and ends June 30. For example, fiscal year 2023 refers to the fiscal year ended June 30, 2023.

Description of Funds

The Commonwealth utilizes the fund method of accounting. For purposes of governmental accounting, a "fund" is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Each fund records the cash and/or other resources together with all related liabilities and equities

that are segregated for the purpose of the fund. In the Commonwealth, funds are established by legislative enactment or in certain limited cases by administrative action. Over 150 funds have been established and currently exist for the purpose of recording the receipt and disbursement of moneys received by the Commonwealth. Annual budgets are adopted each fiscal year for the principal operating funds of the Commonwealth and several other special revenue funds. Expenditures and encumbrances against these funds may be made only pursuant to appropriation measures enacted by the General Assembly and approved by the Governor.

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

The Motor License Fund receives all tax and fee revenues relating to motor fuels and vehicles. All revenues relating to motor fuels and vehicles are required by the Constitution to be used only for highway purposes. Most federal aid revenues designated for transportation programs and tax revenues relating to aviation fuels are also deposited in the Motor License Fund. Operating and administrative costs for the Department of Transportation and other Commonwealth departments conducting transportation related programs, including the highway patrol activities of the Pennsylvania State Police, are also paid from the Motor License Fund. Debt service on certain bonds issued by the Commonwealth for highway purposes is payable from the Motor License Fund.

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

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

The Budget Stabilization Reserve Fund (colloquially known as the "Rainy Day 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. The Budget Stabilization Reserve Fund (previously designated the "Tax Stabilization Reserve Fund") is used for emergencies threatening the health, safety or welfare of citizens and is used during downturns in the economy that result in significant unanticipated revenue shortfalls not able to be addressed through the normal budget process. Assets of the Budget Stabilization Reserve Fund may be used upon recommendation by the Governor and an approving vote by two-thirds of the members of each chamber of the General Assembly. For purposes of reporting in accordance with generally accepted accounting principles (known as "GAAP"), the Budget Stabilization Reserve Fund has been reported as a fund balance reservation in the General Fund (governmental fund category) since fiscal year 1999. Prior to that fiscal year, the Tax Stabilization Reserve Fund was reported, on a GAAP basis, as a designation of the General Fund unreserved fund balance. See "Budget Stabilization Reserve Fund" below.

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

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

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

Accounting Practices

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

Budgetary Basis

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

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

encumbrances are lapsed in the subsequent fiscal year and under-estimates are charged to a subsequent fiscal year appropriation. Appropriation encumbrances are shown on the Commonwealth's balance sheet as a reservation of fund balance.

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

GAAP Financial Reporting

At the end of each fiscal year, budgetary basis 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 financial reporting for governmental funds requires a modified accrual basis of accounting, while proprietary and fiduciary funds are reported on the accrual basis of accounting.

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

An independent public accounting firm and the Department of the Auditor General jointly audit the Commonwealth's annual GAAP basis financial statements. The audited Basic Financial Statements are a component of the Commonwealth's Annual Comprehensive Financial Report ("ACFR"). The ACFRs for recent fiscal years, including the fiscal year ended June 30, 2022, have been filed with the Municipal Securities Rulemaking Board via its Electronic Municipal Market Access system ("EMMA") and are available from EMMA (<http://www.emma.msrb.org>) and at the Publication & Reports – Annual Financial Report section of the Office of the Budget's website – (<https://www.budget.pa.gov>). The ACFRs for the years ended June 30, 2021 and 2022 are incorporated herein by reference. See also "COMMONWEALTH FINANCIAL PERFORMANCE – Financial Statements Introduction" below.

Investment of Funds

The Treasury Department is responsible for the deposit and investment of most funds belonging to the Commonwealth, including the proceeds of the Commonwealth's bonds and the funds held for the payment of interest on and maturing principal of the Commonwealth's bonds. The Commonwealth's Fiscal Code contains statutory limitations on the investment of funds by the Treasury Department. The Board of Finance and Revenue, a three-member board of State officials chaired by the State Treasurer, is authorized to establish the aggregate amount of funds that may be invested in some of the various categories of permitted investments. The State Treasurer ultimately determines the asset allocation and selects the investments within the parameters of the law.

The Commonwealth's Fiscal Code permits investments in the following types of securities: (i) United States Treasury securities and United States Agency securities maturing within two years of issue; (ii) commercial paper issued by industrial, common carrier or finance companies rated "Prime One" or its

equivalent; (iii) certificates of deposit of Pennsylvania-based commercial banks, savings banks or savings and loans; (iv) repurchase obligations secured by Federal obligations; (v) banker's acceptances written by domestic commercial banks with a Moody's Investors Service "AA" rating or the equivalent rating by Standard & Poor's Financial Services or Fitch's Rating Service; and (vi) other non-equity investments not to exceed ten percent of assets subject to a "prudent investor" test. The Treasury Department maintains additional investment restrictions contained in its Investment Policy Guidelines. A summary of the Investment Policy Guidelines and a report on investment activity and performance of funds invested by the Treasury Department are contained in a report periodically prepared and publicly distributed by the Treasury Department.

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

Budget Stabilization Reserve Fund

Balances in the Budget Stabilization Reserve Fund are to be used only when emergencies involving the health, safety or welfare of the residents of the Commonwealth or downturns in the economy resulting in significant unanticipated revenue shortfalls cannot be dealt with through the normal budget process. Funds in the Budget Stabilization Reserve Fund may be appropriated only upon the recommendation of the Governor and the approval of a separate appropriation bill by a vote of two-thirds of the members of both chambers of the General Assembly. Any funds appropriated from the Budget Stabilization Reserve Fund that are not spent are returned to the Budget Stabilization Reserve Fund. As of June 30, 2023, the Budget Stabilization Reserve Fund had a balance of approximately \$5,128.6 million. In early November 2023, the Commonwealth made a deposit to the Budget Stabilization Reserve Fund in the amount of \$898.3 million. As of the date of this Official Statement, the amount on deposit in the Budget Stabilization Reserve Fund, which includes earnings on the amounts on deposit therein, is \$6,117.4 million.

COMMONWEALTH FINANCIAL PERFORMANCE

Fiscal Year 2024 Budget

The Pennsylvania legislature approved, and the Governor signed, a budget for fiscal year 2024 on August 3, 2023. The enacted budget appropriates \$44,947.3 million from the Commonwealth's General Fund (hereinafter the "General Fund" as described below). The budget includes increases in basic education funding and preserves funding for core state government functions and services. The fiscal year 2024 budget can be viewed at the Governor's Budget Office website at: <https://www.budget.pa.gov>.

Financial Statements Introduction

The most recent Commonwealth audited financial statements are available in the ACFR of the Commonwealth for the fiscal year ended June 30, 2022, which was issued on December 9, 2022. Copies of the ACFRs beginning with fiscal year 2019 through fiscal year 2022 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) Publication & Reports – Annual Financial Report section of the Office of the Budget's website at <https://www.budget.pa.gov>, which ACFRs are incorporated herein by reference. This means that (i) the incorporated information is considered part of this Official Statement, and (ii) such information should be reviewed by prospective purchasers of the Bonds as a part of their review of this Official Statement in its entirety.

The Commonwealth's 2023 ACFR

Any financial information for the fiscal year ended June 30, 2023 presented herein constitutes preliminary and unaudited financial information. The ACFR for the fiscal year ended June 30, 2023 (the

“2023 ACFR”) is expected to be released on or about December 15, 2023 and will be made available promptly on the Office of the Budget’s website (<https://www.budget.pa.gov>) at the Publication & Reports – Annual Financial Report section and filed with the MSRB on EMMA (www.emma.msrb.org). Within 240 days after the end of the fiscal year ended June 30, 2023, the Commonwealth will provide updated financial information and operating data of the kind contained in this APPENDIX B to reflect the audited financial information contained in the 2023 ACFR, all in accordance with the requirements of its Continuing Disclosure Agreement attached to this Official Statement as APPENDIX H.

Government-Wide Financial Data (GAAP Basis)

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

Table 5 on the following page presents condensed comparative financial information derived from the Commonwealth’s government-wide June 30 Statements of Net Position for the fiscal years indicated, preliminary and unaudited for fiscal year ended June 30, 2023.

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Table 5
Government-Wide Condensed Statement of Net Position
As of June 30, 2023 and 2022
(In Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Assets:						
Cash and investments	\$ 33,962	\$ 31,244	\$ 8,201	\$ 5,951	\$ 42,163	\$ 37,195
Capital assets (net)	44,650	43,570	1,154	1,076	45,804	44,646
All other assets	12,125	14,529	2,043	1,826	14,168	16,355
Total assets	90,737	89,343	11,398	8,853	102,135	98,196
Total deferred outflows	10,046	7,710	376	283	10,422	7,993
Liabilities:						
Accounts payable	7,440	12,775	888	843	8,328	13,618
All other current liabilities	7,302	8,427	1,941	885	9,243	9,312
Bonds payable, non-current	9,830	9,801	4,177	4,336	14,007	14,137
All other long-term liabilities	40,654	36,062	4,116	3,754	44,770	39,816
Total liabilities	65,226	67,065	11,122	9,818	76,348	76,883
Total deferred inflows	7,948	11,655	470	733	8,418	12,388
Net position:						
Net invested in capital assets	37,541	36,402	898	808	38,439	37,210
Restricted	6,004	5,102	3,038	2,131	9,042	7,233
Deficit	(15,936)	(23,171)	(3,754)	(4,354)	(19,690)	(27,525)
Total net position	\$ 27,609	\$ 18,333	\$ 182	\$ (1,415)	\$ 27,791	\$ 16,918

Source: Office of the Budget, from the Annual Comprehensive Financial Report, fiscal year ended June 30, 2022 (GAAP) and preliminary, unaudited financial results of the Commonwealth for fiscal year ended June 30, 2023.

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

Net investment in capital assets represents total capital assets less accumulated depreciation and the outstanding liability (excluding unspent proceeds) for debt specifically related to the construction and acquisition of the capital assets. As of June 30, 2023, governmental and business-type activities, respectively, reported net investment in capital assets of \$37,541 million and \$898 million.

Restricted net position is reported based on constraints imposed by either: 1) creditors, grantors, contributors, or laws or regulations of the Federal or other governments; or 2) Commonwealth enabling legislation. As of June 30, 2023, governmental and business-type activities, respectively, reported \$6,004 million and \$3,038 million of restricted net position.

Unrestricted net position represents total net position less the amounts of net investment in capital assets and restricted net position. As of June 30, 2023, governmental and business-type activities, respectively, reported unrestricted net position deficits of \$15,936 million and \$3,754 million.

Financial Data for Governmental Fund Types (GAAP Basis)

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

The governmental funds balance sheet reports total fund balances for all governmental funds. Assets of the Commonwealth's governmental funds (the General Fund and the Motor License Fund are major governmental funds), as of June 30, 2023, were \$46,265.2 million. Liabilities for the same date totaled \$13,309.1 million and deferred inflows of resources totaled \$4,060.2 million, resulting in a fund balance of \$28,895.9 million, an increase of \$6,499.1 million from the fund balance at June 30, 2022. On a fund specific basis, in comparison to fiscal year 2022, the ending fund balance for the General Fund increased by \$4,803.1 million, the fund balance for the Motor License Fund increased by \$308.2 million and the fund balance for aggregated non-major funds increased by \$1,387.7 million. See "General Fund – Fiscal Year 2023 Financial Results – preliminary, unaudited" and "Motor License Fund – Fiscal Year 2023 Financial Results – preliminary, unaudited" herein.

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 is depicted in Table 6 on the following page:

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Table 6
Reconciliation of the Balance Sheet
Governmental Funds (Fund Perspective) to
the Statement of Net Position - Governmental Activities
June 30, 2023
(In Thousands)

Fund Balances - Governmental Funds	
General Fund	\$ 18,174,364
Motor License Fund	2,325,782
Nonmajor Funds	8,395,776
Total Fund Balance - Governmental Funds	\$ <u>28,895,922</u>
Plus: Capital Assets, including infrastructure	\$ 85,092,489
Less: Accumulated depreciation.....	(40,766,465)
Plus: Deferred revenue	4,056,478
Plus: Deferred outflows of resources	(20,290)
Plus: Net assets of internal service funds	(22,136)
Plus: Inventories	148,353
Less: Net pension liabilities	(13,653,728)
Less: Other postemployment benefit liabilities	(20,004,408)
Less: Other asset retirement obligations.....	165,866
Less: Long-term liabilities.....	(16,283,802)
Total Net Position - Governmental Activities	\$ <u>27,608,279</u>

Source: Office of the Budget, from preliminary, unaudited financial results of the Commonwealth for fiscal year ended June 30, 2023.

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

The financial tables and the textual discussions that follow containing GAAP basis financial data are unaudited but are derived from the Commonwealth’s audited ACFRs for fiscal years 2019 through 2022 and from preliminary, unaudited financial results of the Commonwealth for the fiscal year ended June 30, 2023. The discussion of financial performance on a budgetary basis for prior fiscal years is based on an analysis of budget numbers and not on numbers prepared in accordance with GAAP. Likewise, the discussion of the fiscal year 2024 enacted budget reflects a budgetary basis analysis rather than a GAAP basis analysis.

Recent financial results for the Commonwealth’s major operating funds, the General Fund, the Motor License Fund and the State Lottery Fund and other relevant financial information are described in detail in the narrative below. Any discussion of results for the fiscal year ended June 30, 2023 is preliminary and unaudited.

General Fund

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

Financial Results for Fiscal Years 2019-2023

GAAP Basis. During the five-year period from fiscal year 2019 through fiscal year 2023, total revenues and other sources increased by an average annual rate of 9.7 percent. Tax revenues during this same period increased by an annual average rate of 7.0 percent. Expenditures and other uses during fiscal years 2019 through 2023 rose at an average annual rate of 8.1 percent. Expenditures for the protection of persons and property during this period increased at an average annual rate of 6.9 percent; public education expenditures during this period increased at an average annual rate of 7.2 percent; health and human services expenditures increased at an average annual rate of 8.3 percent; and capital outlays increased at an average annual rate of 43.5 percent. Commonwealth expenditures for direction and support services (State employees and government administration) increased at an average annual rate of 9.0 percent during fiscal years 2019 through 2023.

The fund balance at June 30, 2023 of the General Fund was \$18,174.4 million, a \$4,803.1 million increase from the June 30, 2022 fund balance. Total revenues and other sources decreased by \$3,021.3 million and tax revenues increased \$466.6 million. The overall increase in the fund balance is primarily due to a decrease in total liabilities in the fiscal year ended June 30, 2023.

Table 7 on the following page presents a summary of revenues, expenditures and fund balance (GAAP basis) for the General Fund for fiscal years 2019 through 2023 taken from the ACFRs for fiscal years ended June 30, 2019 through June 30, 2022 and from preliminary, unaudited financial results of the Commonwealth for the fiscal year ended June 30, 2023.

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

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Fund Balance — Beginning of Period	\$ 813,710	\$ 835,414	\$ (1,525,203)	\$ 3,073,026	\$ 13,371,235
Restatements	-	24	(243)	-	-
Fund Balance — Beginning of Period, as Restated	\$ 813,710	\$ 835,414	\$ (1,525,446)	\$ 3,073,026	\$ 13,371,235
Revenues:					
Taxes	\$ 33,074,546	\$ 32,687,322	\$ 37,181,965	\$ 42,501,943	\$ 42,968,507
Licenses and fees	854,757	613,793	702,093	700,574	684,754
Intergovernmental	28,215,760	33,325,865	39,636,245	50,428,297	46,171,351
Charges for sales and services	3,356,759	3,703,708	3,957,922	4,137,369	4,250,671
Other revenues	301,908	386,825	347,300	442,778	1,155,759
Other Financing Sources:					
Operating transfers in	1,207,913	508,058	961,805	438,104	505,688
Premium on debt issuance	-	-	7,627	-	-
Other financing agreements	-	-	75,195	-	-
Bonds issued and bond premiums	-	-	-	-	-
Other additions	1,578	3,460	114,152	263,973	155,054
TOTAL REVENUES AND OTHER SOURCES ...	\$ 67,013,221	\$ 71,229,031	\$ 82,984,304	\$ 98,913,038	\$ 95,891,784
Expenditures:					
Direction and supportive services	\$ 908,473	\$ 1,267,988	\$ 1,296,900	\$ 1,317,608	\$ 1,221,402
Protection of persons and property	4,806,069	4,647,132	5,365,030	5,567,082	6,223,912
Health and human services	42,633,941	47,128,172	51,172,007	57,923,444	58,431,165
Public education	16,295,404	16,824,044	17,398,728	20,434,292	21,393,851
Recreation and cultural enrichment	324,364	341,621	341,335	353,066	414,876
Economic development	493,406	1,400,678	561,813	788,580	1,290,744

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Transportation	57,473	58,193	86,243	85,971	92,568
Capital outlay	127,394	106,233	234,753	464,451	332,613
Debt service	30,760	65,186	68,074	68,688	71,956
Other Uses:					
Operating transfers out	1,314,257	1,750,401	1,860,949	1,611,647	1,615,568
TOTAL EXPENDITURES AND OTHER USES	\$ 66,991,541	\$ 73,589,648	\$ 78,385,832	\$ 88,614,829	\$ 91,088,655
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES...	21,680	(2,360,617)	4,598,472	10,298,209	4,803,129
Fund Balance — End of Period.....	\$ 835,390	\$ (1,525,203)	\$ 3,073,026	\$ 13,371,235	\$ 18,174,364
Components of Fund Balance					
Nonspendable.....	\$ 183,102	\$ 170,248	\$ 103,772	\$ 80,856	\$ 60,496
Restricted	8,791	21,779	206,572	279,639	114,626
Committed.....	2,820,739	3,181,608	3,379,346	5,743,068	8,265,049
Assigned.....	-	-	-	23,458	
Unassigned deficit.....	(2,177,242)	(4,898,838)	(616,664)	7,244,214	9,734,193
TOTAL FUND BALANCE	\$ 835,390	\$ (1,525,203)	\$ 3,073,026	\$ 13,371,235	\$ 18,174,364

Source: Office of the Budget, compiled from Annual Comprehensive Financial Reports for fiscal years ended June 30, 2019 through 2022 (GAAP) and preliminary, unaudited results of the Commonwealth for fiscal year ended June 30, 2023.

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Fiscal Year 2019 Financial Results

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

Budgetary Basis. General Fund revenues of the Commonwealth were above the certified estimate by \$883 million or 2.6 percent during fiscal year 2019. Final Commonwealth General Fund revenues for the above fiscal year totaled \$34,857.9 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were \$33,401.5 million.

General Fund revenues increased \$290.9 million or 0.8 percent during fiscal year 2019 when measured on a year-over-year basis as compared to fiscal year 2018. Tax revenue collections increased \$2,052.9 million or 6.4 percent on a year-over-year basis from fiscal year 2018 to fiscal year 2019 while non-tax revenue collections decreased \$1,761.9 million or negative 68.7 percent from fiscal year 2018 to fiscal year 2019. Corporate tax receipts were \$622.1 million higher than fiscal year 2018 levels. The year-over-year increase in corporate taxes was 12.7 percent during fiscal year 2019 as corporate net income tax collections increased 17.9 percent. Personal income taxes were \$696.6 million above fiscal year 2018 actual collection and the year-over-year growth in personal income tax receipts was 5.2 percent. Personal income tax collections attributable to withholding increased by 4.1 percent or \$407.4 million during fiscal year 2019 and tax collections from the non-withholding portion of the personal income tax increased 8.6 percent or \$289.2 million on a year-over-year basis. Sales and use taxes receipts were \$718.3 million greater during fiscal year 2019 than during fiscal year 2018, a growth rate of 6.9 percent. Sales tax collections increased during fiscal year 2019 as non-motor vehicle sales tax collections grew 7 percent and motor vehicle sales tax receipts increased 6.5 percent during fiscal year 2019. Cigarette tax collections decreased 6.6 percent during fiscal year 2019 and inheritance tax collections increased 3.4 percent. Realty transfer tax revenues increased 3.8 percent during fiscal year 2019.

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

Fiscal Year 2020 Financial Results

GAAP Basis. At June 30, 2020, the General Fund reported a negative fund balance of \$1,525.2 million, a decrease of \$2,360.6 million from the \$835.4 million fund balance at June 30, 2019. The majority of this decrease was due to delays of tax filing dates for personal and corporate taxes because of the COVID-19 pandemic.

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

General Fund revenues decreased \$2,582.0 million or 7.4 percent during fiscal year 2020 when measured on a year-over-year basis as compared to fiscal year 2019. Tax revenue collections decreased

\$2,445.4 million or 7.2 percent on a year-over-year basis from fiscal year 2019 to fiscal year 2020 while non-tax revenue collections decreased \$136.6 million or 17.0 percent from fiscal year 2019 to fiscal year 2020. Corporate tax receipts were \$671.8 million lower than fiscal year 2019 levels. The year-over-year decrease in corporate taxes was 12.2 percent during fiscal year 2020 as corporate net income tax collections decreased 16.9 percent and financial institutions tax increased 3.4 percent. Personal income taxes were \$1,260.5 million below fiscal year 2019 actual collection and the year-over-year decrease in personal income tax receipts was 8.9 percent. Personal income tax collections attributable to withholding increased by 0.9 percent or \$98.9 million during fiscal year 2020 and tax collections from the non-withholding portion of the personal income tax decreased 37.2 percent or \$1,359.4 million on a year-over-year basis. Sales and use taxes receipts were \$281.8 million less during fiscal year 2020 than during the prior fiscal year, a decrease of 2.5 percent. Cigarette tax collections declined 17.4 percent during fiscal year 2020 and inheritance tax collections increased 2.7 percent. Realty transfer tax revenues decreased by 6.8 percent during fiscal year 2020.

Commonwealth General Fund appropriations for fiscal year 2020 totaled \$34,090.2 million, an increase of \$688.7 million or 2.1 percent from fiscal year 2019 levels. The ending unappropriated negative balance was \$2,734.1 million for fiscal year 2020.

Fiscal Year 2021 Financial Results

GAAP Basis. At June 30, 2021, the General Fund reported a fund balance of \$3,073 million, an increase of \$4,598.5 million from the \$1,525.4 million negative fund balance, as restated at June 30, 2020.

Budgetary Basis. General Fund revenues of the Commonwealth were above the certified estimate by \$3,437.3 million or 9.3 percent during fiscal year 2021. Final Commonwealth General Fund revenues for the above fiscal year totaled \$40,392.0 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were \$34,013.2 million in fiscal year 2021. After accounting for a negative fiscal year 2021 beginning balance of \$2,734.1 million, the Commonwealth ended fiscal year 2021 with a surplus of \$2,621.5 million which was transferred to the Budget Stabilization Reserve Fund (See Table 8 below).

General Fund revenues increased \$8,116.1 million or 25.1 percent during fiscal year 2021 when measured on a year-over-year basis as compared to fiscal year 2020. Tax revenue collections increased \$7,568.7 million or 23.9 percent on a year-over-year basis from fiscal year 2020 to fiscal year 2021 while non-tax revenue collections increased \$547.4 million or 82.3 percent from fiscal year 2020 to fiscal year 2021. Corporate tax receipts were \$1,494.5 million higher than fiscal year 2020 levels. The year-over-year increase in corporate taxes was 30.9 percent during fiscal year 2021 as corporate net income tax collections increased 56.5 percent and financial institutions tax increased 7.7 percent. Personal income taxes were \$3,448.4 million above fiscal year 2020 actual collection and the year-over-year decrease in personal income tax receipts was 26.9 percent. Personal income tax collections attributable to withholding increased by 2.8 percent or \$295.2 million during fiscal year 2021 and tax collections from the non-withholding portion of the personal income tax increased 137.6 percent or \$3,153.2 million on a year-over-year basis. Sales and use taxes receipts were \$2,017.1 million more during fiscal year 2021 than during the prior fiscal year, an increase of 18.6 percent. Cigarette tax collections increased 4.3 percent during fiscal year 2021 and inheritance tax collections increased 24.3 percent. Realty transfer tax revenues increased by 28.6 percent during fiscal year 2021.

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

Fiscal Year 2022 Financial Results

GAAP Basis. At June 30, 2022, the General Fund reported a fund balance of \$13,371.2 million, an increase of \$10,298.2 million from the \$3,073.0 fund balance at June 30, 2021, as revenues and other sources increased by \$15,929.7 million.

Budgetary Basis. General Fund revenues of the Commonwealth were above the certified estimate by \$5,598.0 million or 13.2 percent during fiscal year 2022. Final Commonwealth General Fund revenues for the fiscal year totaled \$48,134.2 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were \$39,351.3 million. After accounting for a fiscal year 2022 beginning balance of \$4.4 million, and a transfer to the Budget Stabilization Reserve Fund, the Commonwealth ended fiscal year 2022 with a surplus of \$5,537.4 million (See Table 8).

General Fund revenues increased \$7,742.2 million or 19.2 percent during fiscal year 2022 when measured on a year-over-year basis as compared to fiscal year 2021. Tax revenue collections increased \$4,309.0 million or 11.0 percent on a year-over-year basis from fiscal year 2021 to fiscal year 2022 while non-tax revenue collections increased \$3,433.2 million or 283.2 percent from fiscal year 2021 to fiscal year 2022, due primarily to the one-time transfer of federal ARPA funds to the General Fund as revenue replacement. The year-over-year increase in corporate taxes was 15.5 percent during fiscal year 2022. Corporate net income tax collections increased 20.2 percent or by \$895.4 million from 2021 levels. Personal income taxes were \$1,842.3 million above fiscal year 2021 actual collections and the year-over-year increase in personal income tax receipts was 11.3 percent. Personal income tax collections attributable to withholding increased by 11.0 percent or \$1,188.3 million during fiscal year 2022. Sales and use taxes receipts were \$1,079.4 million more during fiscal year 2022 than during the prior fiscal year, an increase of 8.4 percent. Cigarette tax collections decreased 9.3 percent during fiscal year 2022 and inheritance tax collections increased 15.2 percent. Realty transfer tax revenues increased by 32.3 percent and gaming tax collections increased by 27.3 percent during fiscal year 2022.

Commonwealth General Fund appropriations for fiscal year 2022 totaled \$39,351.3 million, an increase of \$5,338.0 million or 15.6 percent from fiscal year 2021 levels. The Commonwealth transferred \$2,100.0 million of its fiscal year 2022 ending balance to the Budget Stabilization Reserve Fund.

Fiscal Year 2023 Financial Results – preliminary, unaudited

Budgetary Basis: General Fund revenues of the Commonwealth were above the certified estimate by \$1,337.5 million or 3.1 percent during fiscal year 2023. Final Commonwealth General Fund revenues for the fiscal year totaled \$44,917.1 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources were \$40,801.0 million. After accounting for a fiscal year 2023 beginning balance of \$5,546.4 million, and a transfer to the Budget Stabilization Reserve Fund, the Commonwealth ended fiscal year 2023 with a surplus of \$8,084.9 million.

General Fund revenues decreased \$3,217.1 million or 6.7 percent during fiscal year 2023 when measured on a year-over-year basis as compared to fiscal year 2022. Tax revenue collections increased \$287.8 million or 0.7 percent on a year-over-year basis from fiscal year 2022 to fiscal year 2023 while non-tax revenue collections decreased \$3,504.8 million or 75.4 percent from fiscal year 2022 to fiscal year 2023. The year-over-year increase in corporate taxes was 12.8 percent during fiscal year 2023. Corporate net income tax collections increased 15.3 percent or by \$815.5 million from 2022 levels. Personal income taxes declined \$497.6 million in fiscal year 2023, a decline of 2.7 percent. Personal income tax collections attributable to withholding increased by 5.1 percent or \$617.5 million during fiscal year 2023. Non-withheld personal income tax collections declined by \$1,115.1 million, or 18.3 percent from 2022. Sales and use taxes receipts were \$110.2 million more during fiscal year 2023 than during the prior fiscal year, an increase of 0.8 percent. Cigarette tax collections decreased 11.6 percent during fiscal year 2023 and inheritance tax

collections decreased 1.7 percent. Realty transfer tax revenues decreased by 24.0 percent and gaming tax collections increased by 18.6 percent during fiscal year 2023.

Commonwealth General Fund appropriations for fiscal year 2023 totaled \$40,801.0 million, an increase of \$1,449.7 million or 3.7 percent from fiscal year 2022 levels. In November 2023, the Commonwealth transferred \$898.3 million, or 10 percent of its fiscal year 2023 ending General Fund balance to the Budget Stabilization Reserve Fund.

Table 8 below sets forth the sources, uses and changes in unappropriated balances of the General Fund and other funding sources for fiscal years 2022 and 2023 and as enacted for fiscal year 2024. The financial results for the fiscal year ended June 30, 2023 are preliminary and unaudited.

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

	Actual Fiscal Year 2022	Actual Fiscal Year 2023	Enacted Fiscal Year 2024
Sources:			
Beginning Balance (Plus Adjustments)	\$ 4,450	\$ 5,546,421	\$ 8,084,871
Revenue Receipts.....	48,134,220	44,917,148	44,881,100
Refunds	(1,420,000)	(1,489,400)	(1,495,000)
Prior Year Lapses.....	270,012	810,000	205,000
Funds Available	<u>\$ 46,988,682</u>	<u>\$ 49,784,169</u>	<u>\$ 51,675,971</u>
Uses:			
Appropriations	\$ 39,351,261	\$ 40,800,979	\$ 44,947,342
Supplemental Appropriations/Current Year Lapses	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures ⁽¹⁾	\$ 39,351,261	\$ 40,800,979	\$ 44,947,342
Preliminary Balance.....	\$ 7,637,421	\$ 8,983,190	\$ 6,728,629
Transfer to Budget Stabilization Reserve Fund ⁽²⁾	<u>(2,100,000)</u>	<u>(898,319)</u>	<u>0</u>
Ending Unappropriated Balance.....	<u>\$ 5,537,421</u>	<u>\$ 8,084,871</u>	<u>\$ 6,728,629</u>

Source: Office of the Budget.

(1) - Expenditures in 2023-24 require enactment of non-preferred legislation.

(2) - An additional transfer to the Budget Stabilization Reserve Fund will occur by September 30, 2024 in accordance with Article XVII-A of the Fiscal Code of 1929 (the act of April 9, 1929, P.L. 343, No. 176) unless modified by the General Assembly.

Fiscal Year 2024 Enacted Budget

The enacted fiscal year 2024 budget appropriates \$44,947.3 million in state general funds. The legislature may enact additional appropriations for educational institutions during the remainder of fiscal year 2024, as certain appropriations to non-governmental entities have been considered but not yet enacted. The budget document and related information are available on the Office of the Budget's website at <https://www.budget.pa.gov> and are incorporated herein by reference.

The General Fund is the primary funding source for most State agencies and institutions supported by the Commonwealth. More than 77 cents of every dollar are returned to individuals, local governments, institutions, school districts, and others in the form of grants and subsidies. The remainder pays operating

expenses and debt service. Major program expenditures occur in the areas of education, public health and human services, and the State correctional institutions.

Motor License Fund

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

Financial Results for Fiscal Years 2019-2023

GAAP Basis. The fund balance at June 30, 2023, of the Motor License Fund was \$2,325.8 million, a \$308.2 million increase from the June 30, 2022 fund balance. Over five fiscal years, 2019 through 2023, revenues and other sources averaged an annual 1.8 percent increase. Expenditures and other uses during the same period averaged a 0.1 percent annual decrease. Overall, total revenues and other sources increased by \$251.0 million during the fiscal year that ended June 30, 2023. Tax revenues increased \$65.8 million primarily due to the increase in the liquid fuels tax. Licenses and fees increased \$11.3 million due to increased vehicle registrations and driver licenses. During the prior fiscal year, extensions were granted for the expirations of vehicle registrations, drivers' licenses, and learner's permits, including commercial driver's licenses. These extensions expired during fiscal year 2021.

Total expenditures and other uses increased by \$652.9 million during fiscal year ended June 30, 2023. Transportation expenditures increased by \$324.6 million and Capital outlay increased by \$332.5 million. The increase in transportation expenditures were attributable to an increase in operational costs, specifically fuels and bituminous material usage, as highway projects and construction activity continued to increase following the pandemic.

Table 9 on the following page presents a summary of revenues, expenditures and fund balance (GAAP basis) for the Motor License Fund for fiscal years 2019 through 2022 taken from the ACFRs for fiscal years ended June 30, 2019 through June 30, 2022 and from preliminary, unaudited financial results of the Commonwealth for the fiscal year ended June 30, 2023.

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

	Fiscal Year Ended June 30				
	2019	2020	2021	2022	2023
Fund Balance — Beginning of Period.	\$ 1,003,959	\$ 872,037	\$ 595,346	\$ 1,307,435	\$ 2,017,572
Revenues:					
Taxes	\$ 3,795,265	\$ 3,382,948	\$ 3,562,411	\$ 3,598,713	\$ 3,664,489
Licenses and fees.....	1,015,010	1,075,920	1,114,831	1,150,205	1,161,459
Intergovernmental.....	1,917,103	1,731,505	2,350,760	2,109,196	2,220,961
Other revenues.....	58,393	73,180	104,618	87,817	145,315
Other Financing Sources:					
Operating transfers in	24,860	28,697	12,868	21,508	25,910
Capital lease and installment purchase obligations	57	1,145	-	589	892
Other additions	-	-	-	-	-
TOTAL REVENUES AND OTHER SOURCES	\$ 6,810,688	\$ 6,293,395	\$ 7,145,488	\$ 6,968,028	\$ 7,219,026
Expenditures:					
Direction and supportive services.....	\$ 34,692	\$ 36,991	\$ 34,773	31,951	\$ 36,232
Protection of persons and property	1,021,772	991,348	963,566	786,121	777,185
Health and human services	1	-	-	-	-
Public education	290	328	276	300	328
Economic development	163	171	148	175	260
Recreation and cultural enrichment	5,416	4,886	6,224	7,450	5,773
Transportation.....	2,911,380	2,795,235	2,653,646	2,693,484	3,018,071
Capital outlay.....	2,840,569	2,623,360	2,650,500	2,574,906	2,907,407
Interest and fiscal charges.....	18	171	891	745	775
Other Uses:					
Operating transfers out	128,309	117,596	123,375	162,759	164,785
TOTAL EXPENDITURES AND OTHER USES	\$ 6,942,610	\$ 6,570,086	\$ 6,433,399	\$ 6,257,891	\$ 6,910,816
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	(131,922)	(276,691)	712,089	710,137	308,210
Fund Balance — End of Period.....	\$ 872,037	\$ 595,346	\$ 1,307,435	\$ 2,017,572	\$ 2,325,782
Components of Fund Balance.....					
Restricted.....	872,037	595,346	1,307,435	2,017,572	2,325,782
TOTAL FUND BALANCE	\$ 872,037	\$ 595,346	\$ 1,307,435	\$ 2,017,572	\$ 2,325,782

Source: Office of the Budget, compiled from Annual Comprehensive Financial Reports for fiscal years ended June 30, 2019 through 2022 (GAAP) and preliminary, unaudited financial results of the Commonwealth for fiscal year ended June 30, 2023.

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The following budgetary basis information is derived from the Commonwealth's budgetary basis financial statement for fiscal years 2019 through 2023 and the enacted budget for fiscal year 2024.

Fiscal Year 2019 Financial Results

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled \$2,849.3 million, a decrease of \$99.2 million or 3.4 percent over fiscal year 2018 revenues. Receipts from liquid fuels taxes decreased by 0.5 percent while license and fee revenues decreased by 5.1 percent from the previous year. Other revenue receipts decreased by 65.2 percent from the previous fiscal year. Fiscal year 2019 Motor License Fund appropriations and executive authorizations totaled \$3,066.2 million, an increase of 5.9 percent over fiscal year 2018. The Motor License Fund concluded fiscal year 2019 with an unappropriated surplus of \$29.0 million, a net decrease of \$187.4 million from the 2018 unappropriated surplus of \$216.4 million.

Fiscal Year 2020 Financial Results

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled \$2,663.5 million, a decrease of \$185.8 million or 6.5 percent from fiscal year 2019 revenues. Receipts from liquid fuels taxes decreased by 7 percent while license and fee revenues decreased by 3.9 percent from the previous year. Fiscal year 2020 Motor License Fund appropriations and executive authorizations totaled \$2,767.0 million, a decrease of 9.8 percent from fiscal year 2019. The Motor License Fund concluded fiscal year 2020 with a negative unappropriated balance of \$51.2 million, a net decrease of \$80.2 million from the fiscal year 2019 unappropriated surplus of \$29.0 million.

Fiscal Year 2021 Financial Results

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled \$2,825.6 million, an increase of \$162 million or 6.1 percent from fiscal year 2020 revenues. Receipts from liquid fuels taxes decreased by 3 percent while license and fee revenues increased by 20.7 percent over the previous year. Fiscal year 2021 Motor License Fund appropriations and executive authorizations totaled \$2,722.9 million, a decrease of 1.5 percent over fiscal year 2020. The Motor License Fund concluded fiscal year 2021 with an unappropriated surplus of \$115.4 million, a net increase of \$166.5 million above the fiscal year 2020 negative unappropriated surplus of \$51.1 million.

Fiscal Year 2022 Financial Results

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled \$2,883.4 million, an increase of \$57.8 million or 2 percent over fiscal year 2021 revenues. Receipts from liquid fuels taxes increased by 5.5 percent while license and fee revenues decreased by 2.2 percent as compared to the previous year.

Fiscal year 2022 Motor License Fund appropriations and executive authorizations totaled \$2,691.9 million, a decrease of 0.6 percent from fiscal year 2021. The Motor License Fund concluded fiscal year 2022 with an unappropriated surplus of \$347.3 million, a net increase of \$231.9 million above the fiscal year 2021 unappropriated surplus of \$115.4 million.

Fiscal Year 2023 Financial Results – preliminary, unaudited

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled \$2,958.3 million, an increase of \$75 million or 2.6 percent over fiscal year 2022 revenues. Receipts from liquid fuels taxes increased by 1.6 percent while license and fee revenues decreased by 0.8 percent as compared to the previous year. Fiscal year 2023 Motor License Fund appropriations and executive authorizations totaled \$3,151.1 million, an increase of 17 percent from fiscal year 2022. The Motor License Fund concluded fiscal year 2023 with an unappropriated surplus of \$255.4 million, a net decrease of \$91.9 million below the fiscal year 2022 unappropriated surplus of \$347.3 million.

Fiscal Year 2024 Enacted Budget

Budgetary Basis. Commonwealth revenues to the Motor License Fund are budgeted to be \$3,126.8 million, an increase of \$168.5 million or 5.7 percent over fiscal year 2023 revenues. Receipts from the liquid fuels tax are budgeted to increase 1.9 percent from the prior year, while license and fee revenues are budgeted to increase by 13 percent. Additionally, other revenue receipts are budgeted to be \$55.4 million. Fiscal year 2024 Motor License Fund appropriations and executive authorizations are budgeted to equal \$3,232.4 million, an increase of 2.6 percent over fiscal year 2023 appropriations. The Motor License Fund is budgeted to conclude fiscal year 2024 with an unappropriated balance of \$149.8 million, a decrease of \$105.6 million from the fiscal year 2023 unappropriated fund balance of \$255.4 million.

State Lottery Fund

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

State Lottery Fund receipts support programs to assist elderly and handicapped individuals, primarily through property tax and rent rebate assistance and a pharmaceutical assistance program to recipients who meet specified income limits, and the provision of free mass transit rides during off-peak hours.

Financial Results for Fiscal Years 2019-2023

GAAP Basis. During the fiscal year ended June 30, 2023, the net year-over-year increase in total revenues and other sources was \$695.4 million. Total operating revenues increased \$556.7 million. Total operating expenses increased \$563.0 million. Operating expenses have a strong correlation to operating revenues as the amount of prize payouts are directly related to lottery sales.

Table 10 on the following page presents a summary of revenues, expenditures and fund balance (GAAP basis) for the State Lottery Fund for fiscal years 2019 through 2022 taken from the ACFRs for fiscal years ended June 30, 2019 through June 30, 2022 and from preliminary, unaudited financial results of the Commonwealth for the fiscal year ended June 30, 2023.

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

	Fiscal Year Ended June 30				
	2019	2020	2021	2022	2023
Net Position -					
Beginning of Period	\$ (393,436)	\$ (407,866)	\$ (130,068)	\$ (23,774)	\$ 86,127
Restatements	-	-	-	-	-
Net Position					
Beginning of Period, as Restated.	\$ (393,436)	\$ (407,866)	\$ (130,068)	\$ (23,774)	\$ 86,127
Revenues:					
Lottery revenues	4,587,499	4,560,904	5,456,344	5,127,114	5,683,791
Intergovernmental.....	-	-	-	-	140,000
Investment income.....	3,598	2,552	332	1,058	25,229
Other revenues.....	2,338	-	-	34	-
Other Financing Sources:					
Operating transfers in	141,700	265,500	500	114,700	89,300
TOTAL REVENUES AND OTHER SOURCES.....	\$ 4,735,135	\$ 4,828,956	\$ 5,457,176	\$ 5,242,906	\$ 5,938,320
Expenditures:					
Costs of sales and services.....	\$ 4,485,905	\$ 4,308,501	\$ 5,105,989	\$ 4,918,166	\$ 5,480,224
Depreciation and amortization.....	5,324	6,750	8,986	8,932	9,885
Other expenses.....	7,429	-	-	-	36
Other Uses:					
Operating transfers out	250,907	235,907	235,907	205,907	255,907
TOTAL EXPENDITURES AND OTHER USES.....	\$ 4,749,565	\$ 4,551,158	\$ 5,350,882	\$ 5,133,005	\$ 5,746,052
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	(14,430)	277,798	106,294	109,901	192,268
Net Position - End of Period	\$ (407,866)	\$ (130,068)	\$ (23,774)	\$ 86,127	\$ 278,395
Components of Net Position					
Invested in capital assets, net of debt	\$ 31,234	\$ 37,345	\$ 37,797	\$ 41,561	\$ 96,816
Restricted for elderly programs ...	-	-	-	44,566	181,579
Deficit.....	(439,100)	(167,413)	(61,571)	-	-
TOTAL NET POSITION	\$ (407,866)	\$ (130,068)	\$ (23,774)	\$ 86,127	\$ 278,395

Source: Compiled from Office of the Budget, Annual Comprehensive Financial Reports for fiscal years ended June 30, 201 through 2022 and from preliminary, unaudited financial results of the Commonwealth for the fiscal year ended June 30, 2023.

The following budgetary basis information is derived from the Commonwealth's unaudited budgetary basis financial statements for fiscal years 2019 through 2023 and the enacted budget for fiscal year 2024.

Fiscal Year 2019 Financial Results

Budgetary Basis. Fiscal year 2019 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, increased by 8.8 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2019, were \$1,956.3 million. Total appropriations, net of current-year lapses, were \$1,952.1 million. The fiscal year-end unappropriated balance and reserve had a surplus of \$4.2 million.

Fiscal Year 2020 Financial Results

Budgetary Basis. Fiscal year 2020 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, decreased by 6.1 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2020, were \$1,959.1 million. Total appropriations, net of current-year lapses, were \$2,078.9 million. The fiscal year-end unappropriated balance and reserve had a negative balance of \$119.8 million.

Fiscal Year 2021 Financial Results

Budgetary Basis. Fiscal year 2021 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, increased by 19.3 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2021, were \$1,999.8 million. Total appropriations, net of current-year lapses, were \$1,876.5 million. The fiscal year-end unappropriated balance and reserve had a balance of \$48.3 million.

Fiscal Year 2022 Financial Results

Budgetary Basis. Fiscal year 2022 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, decreased by 6.9 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2022 were \$2,193.3 million. Total appropriations, net of current-year lapses, were \$1,968.5 million. The fiscal year-end unappropriated balance and reserve had a balance of \$149.8 million, an increase of 209.9 percent.

Fiscal Year 2023 Financial Results – preliminary, unaudited

Budgetary Basis. Fiscal year 2023 net revenues from lottery sources, including instant ticket sales and the Commonwealth's participation in the multi-state Powerball game, increased by 2.1 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2023, were \$2,450.2 million. Total appropriations, net of current-year lapses, were \$2,212.6 million. The fiscal-year-end unappropriated balance and reserve had a balance of \$162.6 million, an increase of 8.6 percent.

Fiscal Year 2024 Enacted Budget

The enacted fiscal year 2024 budget anticipates a 5.0 percent decrease in net revenues from all lottery sources, including instant-ticket sales and the State's participation in the multi-state Powerball game. Continued revenue growth is anticipated from the implementation of Act 42 of 2017, which contained extensive revisions to the Commonwealth's gaming provisions, including the implementation of new iLottery, Keno and Virtual Sports lottery products that will increase sales and profits. State Lottery Funds available, including lapses, are estimated to be \$2,242.0 million in fiscal year 2024, a decrease of 8.5 percent. Budgeted appropriations and executive authorizations total \$1,975.3 million, which represents a decrease of \$237.3 million or a 10.7 percent decrease from fiscal year 2023. The fiscal year-end balance reflects a projected surplus of \$191.7 million, an increase of \$29.0 million from the fiscal year 2023 ending balance.

COMMONWEALTH REVENUES AND EXPENDITURES

Recent Receipts and Forecasts

Table 11, on the next page, presents the Commonwealth revenue receipts, including net revenues accrued but not deposited, on a budgetary basis, for the major operating funds of the Commonwealth as actually received for fiscal years 2019 through 2023.

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Table 11
General Fund, Motor License Fund and State Lottery Fund – Unaudited ^(a)
Fiscal Year 2019 – Fiscal Year 2023
(In Millions)

Fiscal Year Ended June 30	2019	2020	2021	2022	2023 ^(d)
General Fund					
Tax Revenues:					
Sales and use	\$ 11,099.6	\$ 10,817.8	\$ 12,834.9	\$ 13,914.3	\$ 14,024.4
Personal income	14,095.5	12,835.0	16,283.4	18,125.7	17,628.1
Corporate (b)	3,397.5	2,826.9	4,423.8	5,323.2	6,139.5
Public utility (c)	1,286.3	1,142.0	1,030.2	1,061.9	1,226.9
Inheritance	1,053.6	1,082.0	1,345.5	1,550.5	1,524.4
Financial and insurance (d)	824.4	866.5	874.7	931.1	887.6
Cigarette	1,118.8	924.3	964.2	874.1	772.9
Other Tobacco Products	129.9	127.3	134.9	149.5	152.6
Realty transfer	534.0	497.8	640.2	847.1	643.8
Alcoholic beverages (e)	405.4	388.9	439.1	453.7	473.2
Other	111.1	102.3	208.7	257.0	303.0
TOTAL TAX REVENUES	\$ 34,056.1	\$ 31,610.7	\$ 39,179.6	\$ 43,488.2	\$ 43,776.4
Non-Tax Revenues:					
Liquor store profits	\$ 185.1	\$ 185.1	\$ 185.1	\$ 185.1	\$ 185.1
Licenses, fees and miscellaneous	543.6	411.8	963.2	4,393.9	889.6
Fines, penalties and interest	72.9	68.0	64.1	66.9	66.0
TOTAL NON-TAX REVENUES	\$ 801.6	\$ 664.9	\$ 1,212.4	\$ 4,645.9	\$ 1,140.7
TOTAL GENERAL FUND	\$ 34,857.7	\$ 32,275.6	\$ 40,392.0	\$ 48,134.1	\$ 44,917.2
Motor License Fund					
Tax Revenues:					
Liquid fuels	\$ 665.4	\$ 635.1	\$ 616.3	\$ 645.7	\$ 644.4
Fuels use	0.0	0.0	0.0	0.0	0.0
Oil company franchise	1,005.6	931.4	904.8	949.7	953.3
Motorbus & alt fuels	150.9	141.9	135.3	151.5	177.1
Minor and Repealed		(0.2)	(0.4)	0.0	0.0
TOTAL TAX REVENUES	\$ 1,821.9	\$ 1,708.2	\$ 1,656.0	\$ 1,746.9	\$ 1,774.8
Non-Tax Revenues:					
Licenses and fees	\$ 1,008.6	\$ 954.0	\$ 1,151.4	\$ 1,126.6	\$ 1,117.8
Other and miscellaneous	19.4	1.0	17.9	9.8	65.7
TOTAL NON-TAX REVENUES	\$ 1,028.0	\$ 955.0	\$ 1,169.3	\$ 1,136.4	\$ 1,183.5
TOTAL MOTOR LICENSE FUND..	\$ 2,849.9	\$ 2,663.3	\$ 2,825.3	\$ 2,883.3	\$ 2,958.3
State Lottery Fund					
Non-Tax Revenues:					
Lottery revenues	\$1,785.4	\$ 1,676.0	\$ 2,006.2	\$ 1,967.5	\$ 2,006.9
Other and miscellaneous	145.2	267.9	(6.4)	255.8	112.1
TOTAL NON-TAX REVENUES	\$ 1,930.6	\$ 1,943.8	\$ 1,999.8	\$ 2,223.3	\$ 2,119.0
TOTAL STATE LOTTERY FUND..	\$ 1,930.6	\$ 1,943.8	\$ 1,999.8	\$ 2,223.3	\$ 2,119.0

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 tax.

^(d) Includes the financial institution and insurance premium taxes.

^(e) Includes the liquor and malt beverage taxes.

^(e) Preliminary, unaudited.

Table 12 below 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 2019 through 2023.

Table 12
Commonwealth Revenues – Official Estimate vs. Actual ^(a)
General Fund and Motor License Fund – Unaudited
Fiscal Year 2019 – Fiscal Year 2023
(In Millions)

FY Ended June 30	General Fund			Motor License Fund		
	Official Estimate ^(b)	Actual	Variance	Official Estimate ^(b)	Actual	Variance
2019	\$33,974.8	\$34,857.9	\$ 883.1	\$2,907.2	\$2,849.3	(\$ 57.9)
2020	35,496.8	32,275.8	(3,221.0)	2,849.9	2,663.5	(186.4)
2021	36,954.7	40,392.0	3,437.3	2,806.1	2,825.6	19.5
2022	42,536.2	48,134.2	5,598.0	2,846.0	2,883.4	37.4
2023 ^(c)	43,579.7	44,917.1	1,337.4	2,916.1	2,958.3	42.2

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.

^(c) Preliminary, unaudited.

Tax Revenues (Unaudited Budgetary Basis)

General Fund

Tax revenues constituted approximately 97.5 percent of Commonwealth revenues in the General Fund for the fiscal year ended June 30, 2023 (hereafter, fiscal year 2023). The major tax sources for the General Fund of the Commonwealth are shown in the following table:

Major General Fund Tax Sources by Type	
Tax Type	Collections (in millions)
Sales and Use	\$14,024.4
Personal Income	17,628.1
Corporate Net Income	6,139.5
Gross Receipts	1,181.0
Inheritance	1,524.4

Together, the five taxes set forth in the table above produced 92.5 percent of General Fund tax revenues for the fiscal year 2023.

Motor License Fund

The major tax source for the Motor License Fund is the Oil Company Franchise Tax, which produced 54.0 percent of non-restricted Motor License Fund revenues in fiscal year 2023. Portions of certain taxes whose receipts are deposited into the Motor License Fund are legislatively restricted to specific transportation

programs. These receipts are accounted for in restricted accounts in the Motor License Fund and are not included in the budgetary basis discussions of the tax revenues of the Motor License Fund.

General Fund Revenue Detail

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

Corporate Net Income Tax

Total corporate net income taxes of \$6,139.5 million were collected in fiscal year 2023 (13.7 percent of total General Fund revenues).

This tax is paid by all domestic and foreign business corporations for the privilege of doing business, carrying on activities, or employing or owning capital or property in Pennsylvania and is levied on Federal taxable income with Pennsylvania modifications. When the entire business of any corporation is not transacted within Pennsylvania, taxable income is usually determined by a single sales factor apportionment formula for tax years 2013 and beyond.

The tax rate for 2023 is 8.99 percent and will decrease thereafter until the rate is 4.99 percent for tax year 2031 and after.

Gross Receipts Tax

Total gross receipts taxes of \$1,181.0 million were collected in fiscal year 2023 (2.6 percent of total General Fund revenues).

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

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

Insurance Premiums Tax

Total insurance premium taxes of \$521.8 million were collected in fiscal year 2023 (1.2 percent of total General Fund revenues).

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

Prior to the passage of Act 53 of 2022, premiums from foreign casualty companies and foreign fire companies were deposited in the Municipal Pension Aid Fund (MPAF) and the Fire Insurance Tax Fund (FITF), respectively. Act 53 of 2022 provides that all insurance premiums tax payments are deposited in the General Fund. At the close of the fiscal year, the greater of 38 percent of insurance premiums tax revenues or \$345 million is to be transferred to the MPAF, and the greater of 8.5 percent of insurance premiums tax

revenues or \$85 million is to be transferred to the FITF. The change is effective beginning with fiscal year 2022-23. Amounts transferred in fiscal year 2023 (figures shown above are net of these transfers):

- Municipal Pension Aid Fund - \$356.2 million
- Fire Insurance Tax Fund - \$85.0 million

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

Sales & Use Tax

Total sales and use taxes of \$14,024.4 million were collected in fiscal year 2023 (31.2 percent of total General Fund revenues).

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

Listed below are the transfers made from Sales and Use Tax in fiscal year 2023 (figures shown above are net of these transfers):

- Commonwealth Financing Authority - \$163.7 million
- Public Transportation Assistance Fund - \$146.6 million (0.947 percent of gross collections)
- Public Transportation Trust Fund - \$681.1 million (4.4 percent of gross collections)
- Transit Revitalization Investment District Fund - \$0.7 million
- Beginning in fiscal year 2023 an additional monthly transfer is made to the Public Transportation Trust Fund. The transfer is made from Motor Vehicle Sales and Use Tax only, but is calculated on total collections (3.28 percent of gross collections) - \$508.2 million

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

Cigarette Tax

Total cigarette taxes of \$772.9 million were collected in fiscal year 2023 (1.7 percent of total General Fund revenues).

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

Listed below are the transfers made from Cigarette Tax in fiscal year 2023 (figures shown above are net of these transfers):

- Agricultural Conservation Easement Purchase Fund - \$25.5 million
- Children's Health Insurance Program - \$30.7 million
- Tobacco Debt Service - \$115.3 million
- Local Cigarette Tax Fund - \$31.0 million. If collections from the additional Philadelphia Cigarette Tax (\$0.10 per cigarette) fall below \$58.0 million in a fiscal year, a transfer is made from the General Fund to the Local Cigarette Tax Fund to make up the difference.

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

Personal Income Tax

Total personal income taxes of \$17,628.1 million were collected in fiscal year 2023 (39.2 percent of total General Fund revenues).

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

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

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

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

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

The following transfers were made from Personal Income Tax in fiscal year 2023:

- Environmental Stewardship Fund - \$12.3 million
- Farm Show Complex restricted account - \$13.3 million
- Beginning in fiscal year 2022-23 an annual transfer of \$45.0 million will be made to the Election Integrity Restricted Account.

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

Realty Transfer Tax

Total realty transfer taxes of \$643.8 million were collected in fiscal year 2023 (1.4 percent of total General Fund revenues).

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

The following transfers were made from Realty Transfer Tax in fiscal year 2023:

- Keystone Recreation, Park, and Conservation Fund - \$123.3 million (15 percent of gross collections)
- Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund - \$40.0 million. This transfer is to be the lesser of \$40 million or 40 percent of the difference between the total dollar amount of the

realty transfer tax collected in the prior fiscal year and the total dollar amount of the realty transfer tax official estimate for fiscal year 2015 (\$447.5 million). Beginning with the fiscal year 2024 transfer, the \$40 million is increased to \$60 million.

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

Inheritance Tax

Total inheritance taxes of \$1,524.4 million were collected in fiscal year 2023 (3.4 percent of total General Fund revenues).

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

Rates are based on the relationship of the decedent and the beneficiary. Transfers of non-jointly held property to spouses are untaxed. Transfers to parents from decedents 21 years of age or younger are untaxed. Transfers to beneficiaries 21 years of age or younger from their decedent parents are also untaxed. Transfers to other lineal beneficiaries are taxed at 4.5 percent. Transfers to siblings of the decedents are subject to a 12 percent tax rate. Transfers to all other beneficiaries are taxed at 15 percent.

Liquor Tax

Total liquor taxes of \$450.8 million were collected in fiscal year 2023 (1.0 percent of total General Fund revenues)

This tax is a consumption tax on the sale of liquor by the Commonwealth. The distribution of liquor is a state enterprise under the auspices of the Pennsylvania Liquor Control Board ("LCB"). The Commonwealth assumed the liquor control responsibility following the repeal of Prohibition in 1933.

All liquors sold by the LCB are subject to this tax at a rate of 18 percent, which is computed on the actual price paid by the consumer including mark-up, handling charge, and federal tax. The first sale of liquor is also subject to the Sales and Use Tax at the time of purchase. Retail licensees, such as restaurants and bars, purchase liquor from the LCB at a discounted price and pay Liquor and Sales Taxes on these purchases. These taxes are not charged on subsequent purchases of liquor by restaurant customers.

Non-Tax Revenues

Total non-tax revenues of \$1,140.7 million were collected in fiscal year 2023 (2.6 percent of total General Fund revenues).

This category is made up of the following major components:

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

Motor License Fund Revenue Detail

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

Motor Carriers Road Tax / International Fuel Tax Agreement (IFTA)

Total motor carriers road tax/IFTA of \$159.0 million was collected in fiscal year 2023 (5.4 percent of total non-restricted Motor License Fund revenues).

The motor carriers road tax/IFTA is imposed on fuel consumed by qualified motor vehicles operated within Pennsylvania. Qualified motor vehicles operated exclusively in Pennsylvania are subject to fuel taxation under the Motor Carriers Road Tax. Credit is granted for tax paid on fuel purchases. The tax rate is equivalent to the rate per gallon currently in effect on liquid fuels, fuels, or alternative fuels.

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

Oil Company Franchise Tax

Total oil company franchise taxes of \$1,597.7 million were collected in fiscal year 2023 (54.0 percent of total non-restricted Motor License Fund revenues).

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

Fuels sold and delivered to the following are exempt from the tax:

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

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

The following table shows the tax rates in effect for calendar year 2023:

Aviation gasoline	\$0.060/gallon
Jet fuel	\$0.020/gallon
Liquid fuels (motor gasoline and gasohol)	\$0.611/gallon
Fuels (undyed diesel and undyed kerosene)	\$0.785/gallon

Licenses and Fees

Total licenses and fees revenues of \$1,117.8 million were collected in fiscal year 2023 (37.8 percent of total non-restricted Motor License Fund revenues).

This category is made up of the following major components:

- Special Hauling Permits

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

Federal Revenues

Receipts by the Commonwealth in its General Fund, Motor License Fund and Tobacco Settlement Fund from the federal government during fiscal year 2022 totaled \$57,964 million and during fiscal year 2023 totaled \$46,892 million. Anticipated receipts from the federal government included in the fiscal year 2024 enacted budget is \$47,374 million. Approximately \$39,145 million, or 67.5 percent, of total federal revenue to the Commonwealth for fiscal year 2022 was attributed to public health and welfare programs, the largest of which are for the Medical Assistance and Temporary Assistance to Needy Families programs. In fiscal year 2023, \$36,478 million, or 77.8 percent, of federal revenues were attributed to these types of programs. In the fiscal year 2024 enacted budget, approximately \$35,375 million or 74.7 percent of federal revenues are expected to be attributable to public health and welfare programs.

Major Commonwealth Expenditures

The Commonwealth’s major operating funds—the General Fund, the Motor License Fund and the State Lottery Fund—provide financial resources to operate programs and fund grants. Trends in expenditures from those funds for various program areas are discussed below based on budgetary basis financial statements for fiscal year 2022 and fiscal year 2023 and based on the enacted budget for fiscal year 2024.

Education

In fiscal year 2022, expenditures from Commonwealth revenues for education purposes were more than \$15,333 million. In fiscal year 2023, expenditures from Commonwealth revenues for education purposes were more than \$17,127 million. The enacted budget for fiscal year 2024 includes more than \$17,818 million in education funding, an increase of approximately 4.04 percent over fiscal year 2023.

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, career and technical 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 2024 increases the State Basic Education subsidy by \$792.4 million to \$7,872.4 million. A portion of the education funding is distributed to school districts, based on local wealth, existing tax burden, district size and certain student characteristics.

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

Total Commonwealth expenditures for basic education programs in fiscal year 2022 were more than \$13,428 million, representing 87.57 percent of all Commonwealth expenditures for education in fiscal year 2022. Total Commonwealth expenditures for basic education programs in fiscal year 2023 were more than \$15,001 million, representing approximately 87.59 percent of all Commonwealth expenditures for education

in fiscal year 2023. The enacted budget for fiscal year 2024 includes more than \$15,725 million for basic education programs. Table 13 below shows fall enrollment in Pennsylvania public and non-public elementary schools and secondary schools for school years 2019 through 2023.

Table 13
Fall Enrollment in Pennsylvania Public and
Non-Public Elementary Schools and Secondary Schools
School Years 2019-2023
(In Thousands)

	School Year Ended June 30				
	2019	2020	2021	2022	2023
Elementary Schools					
Public	913	910	877	874	878
Nonpublic	148	147	142	148	165
Secondary Schools					
Public	810	815	819	816	863
Nonpublic	68	64	72	73	70
Sub Total					
Public	1,723	1,725	1,696	1,690	1,741
Nonpublic	216	211	214	221	235
Total	1,939	1,936	1,910	1,911	1,976

Source: Pennsylvania Department of Education.

Higher Education. Higher education in Pennsylvania is provided through degree-granting institutions, which include the universities of the State System of Higher Education (PASSHE), four State-related universities, community colleges, independent colleges and universities and specialized degree-granting institutions. PASSHE, established by statute in 1983 from the fourteen State-owned colleges, is administered by a 20-member Board of Governors, of which 11 members are appointed by the Governor and confirmed by the Senate. Over \$1,804 million was expended by the Commonwealth in fiscal year 2022 for these institutions and student financial assistance. Over \$2,007 million was expended by the Commonwealth in the 2023 fiscal year for these institutions and student financial assistance. The enacted budget for fiscal year 2024 includes over \$1,971 million for higher education.

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Table 14 below shows the full-time enrollment at Commonwealth supported institutions of higher education for school years 2019-2023.

Table 14
Full-Time Equivalent Enrollment at State-Supported
Institutions of Higher Education
School Years 2019-2023
(In Thousands)

	School Year Ended June 30,				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
State System of Higher Education	90	88	88	80	77
State-Related Universities	170	160	161	159	156
Community Colleges	77	76	70	61	59
Total	<u>337</u>	<u>324</u>	<u>319</u>	<u>300</u>	<u>292</u>

Source: Pennsylvania Department of Education.

Public Health and Human Services

Fiscal year 2023 public health and human services expenditures were \$58,181 million (budgetary basis) and are projected to be \$59,853 million in fiscal year 2024. Regarding fiscal year 2023 expenditures, nearly \$16,276 million was funded from the General Fund, while \$18,921 million is estimated to be provided from the General Fund for fiscal year 2024. Federal funds are expected to decrease by \$1,125 million and augmentations are expected to increase by \$124 million for fiscal year 2024. Public health and human service programs are the largest single component of combined State and federal spending in the Commonwealth’s operating budget. The overall budget increase reflects the impact of caseload increases, federal mandates, litigation, and continued support of county operated programs for child welfare, mental health, and intellectual disabilities.

The fiscal year 2024 budget includes \$360 million of receipts from the Tobacco Settlement Fund to be expended for health care related programs. For fiscal year 2024, the Governor has proposed to transfer \$115.3 million of cigarette tax revenue to the Tobacco Settlement Fund to replace monies deducted from the Tobacco MSA for deposit in the Tobacco Revenue Bond Debt Service Account. As of the date of this Official Statement, the General Assembly has not enacted this proposal. Federal funds matching the Tobacco MSA funds are also expected to be provided. However, under the terms of the 1998 settlement that created the Tobacco Settlement Fund, payments by the tobacco companies may, in certain circumstances be reduced, reflecting a decline in cigarette sales and such payments also may be limited, delayed, or terminated as a result of bankruptcy or insolvency of tobacco companies or legal challenges to the settlement or to amounts due thereunder. In June 2018, a settlement was reached with various tobacco companies resolving 20 years of disputes and future disputes related to the non-participating manufacturer adjustment. The settlement resulted in a payment of which \$355 million was used to offset health care related costs in fiscal year 2023.

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 \$12,339 million in fiscal year 2023, while \$14,832 million is budgeted from the General Fund for fiscal year 2024. In addition, a nursing home assessment fee provided a General Fund offset (meaning a reduction in required General Fund appropriations) of \$150 million in fiscal year 2023 and is expected to provide a \$170 million offset in fiscal year 2024. A Managed Care Organization assessment provided a General Fund offset of \$1,486 million in fiscal year 2023 and in fiscal year 2024 the offset is projected at \$1,395 million. Also, a Statewide Quality Care assessment provided a \$300 million offset in fiscal year 2023 and is expected to provide a \$368 million offset in fiscal year 2024. In fiscal year 2024, approximately 31.61 percent of the total cost of assistance to the economically needy is proposed to be

supported by Commonwealth funds appropriated from the General Fund. The balance is expected to be provided from reimbursements by the federal government and through various program collection activities conducted by the Commonwealth.

Medical assistance, including long-term living home and community-living programs and the intellectual disability waiver program, continues to be a growing component of public health and human services expenditures. Despite implementation of Commonwealth initiatives to restrain costs, the program continues to grow due to expanding caseloads, technology improvements and general medical cost inflation. Expenditures for medical assistance increased during the period from fiscal years 2013 through 2023 by an average annual rate of 7.14 percent. Fiscal year 2023 expenditures from Commonwealth funds were \$12,198 million (budgetary basis) and are projected to be \$14,586 million in fiscal year 2024, an increase of 19.58 percent from the prior fiscal year. Income maintenance cash assistance payments to families in transition to independence were \$1,026 million for fiscal year 2023, of which \$124 million was from the General Fund. The enacted budget for fiscal year 2024 includes a total of \$1,024 million, for such purpose with \$139 million provided from the General Fund.

Transportation

The Commonwealth is responsible for the construction, restoration and maintenance of the highways and bridges in its 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 financial aid grants. Highway maintenance costs, construction costs, and assistance grants are paid from the Motor License Fund. Other special funds, including the Public Transportation Assistance Fund, the Public Transportation Trust Fund, the Multimodal Transportation Fund and the State Lottery Fund provide funding for mass transit and other modes of transportation.

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

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

Total funding for the Commonwealth's highway and bridge program for fiscal year 2022 was \$2,752 million (budgetary basis). The funding was increased to \$3,136 million (budgetary basis) in fiscal year 2023. The fiscal year 2024 budget reflects an increase to \$3,386 million (budgetary basis). Support of highway and bridge expenditures by local governments through grants paid from the Motor License Fund and restricted revenues was \$619 million in fiscal year 2022 and \$677 million in fiscal year 2023. For fiscal year 2024, grants to local governments decreased to \$647 million.

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

For fiscal year 2008, the funding mechanisms for mass transit in the Commonwealth were changed with the enactment of Act 44 of 2007. 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 of 2007. 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 are provided by scheduled payments by the Pennsylvania Turnpike Commission, a portion of the Sales and Use Tax, certain motor vehicle fees, vehicle code fines and

surcharges, and transfers from the Public Transportation Assistance Fund and the Lottery Fund. This funding supports mass transit programs Statewide, providing financial assistance for operating costs, capital costs, and certain administrative costs for the Department of Transportation. For fiscal year 2022, Commonwealth funding available for mass transit was \$2,378 million (budgetary basis). Funding for mass transit was increased in fiscal year 2023 to \$2,507 million (budgetary basis). The fiscal year 2024 budget for mass transit was increased to \$2,798 million.

Act 89 of 2013 created the Multimodal Transportation Fund to provide additional funding for freight and passenger rail, ports, aviation, bicycle and pedestrian facilities, and other modes of transportation. Revenues deposited into the Multimodal Transportation Fund include payments from the Pennsylvania Turnpike Commission, a portion of certain motor vehicle fees and a portion of the Oil Company Franchise Tax. For fiscal year 2022, Commonwealth funding available for multimodal transportation was \$139 million (budgetary basis). The fiscal year 2023 funding was \$167 million (budgetary basis), and the budget for fiscal year 2024 is \$166 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 2022, \$12 million was expended from aviation restricted accounts. For fiscal year 2023 funding was \$9 million and the budget for fiscal year 2024 is \$10 million.

Taxes on motor fuels provide approximately 63 percent of total non-restricted Motor License Fund revenues annually. COVID-19 significantly impacted both non-restricted and restricted Motor License Fund revenues. This resulted in fiscal year 2021 revenues well below previous levels for Pennsylvania's highway and bridge infrastructure system. These revenue shortfalls primarily impacted the construction program. Federal transportation relief funding of \$407 million along with higher fund revenues and the enactment of \$279 million from federal American Rescue Plan Act State Fiscal Relief funds, allowed calendar year 2021 and 2022 to rebound. The passage of the federal Infrastructure Investment and Jobs Act will afford the opportunity to further increase construction spending by an additional \$748 million in 2023 and \$792 million in 2024. However, while Motor License Fund revenues are projected to surpass pre-pandemic levels for the current budget and future and planning years, additional state funds for construction will be necessary to meet the overall infrastructure needs of the Commonwealth.

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

OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH

General

Article VIII, Section 7(a) of the Constitution permits the Commonwealth to incur the following types of debt: (i) debt to suppress insurrection or rehabilitate areas affected by disaster, (ii) electorate-approved debt, (iii) debt for capital projects, subject to the constitutional debt limit, and (iv) tax anticipation notes payable in the fiscal year of issuance. All debt, except debt incurred through the issuance of tax anticipation notes, must be amortized in substantial and regular amounts.

Debt service on Commonwealth general obligation debt is paid from appropriations out of the General Fund except for debt issued for highway purposes, which is paid from Motor License Fund appropriations. Table 15 on the following page shows general obligation debt outstanding for fiscal years 2014 through 2023.

Table 15
General Obligation Debt Outstanding^(a)
Fiscal Years 2014-2023
(In Millions)

<u>Fiscal Year Ended June 30</u>	<u>General Obligation Debt Outstanding</u>
2014	\$11,408.9
2015	12,074.8
2016	11,578.5
2017	12,009.0
2018	12,455.4
2019	11,559.0
2020	10,750.3
2021	10,939.4
2022	10,084.7
2023	10,206.6

Source: Office of the Budget.

^(a) Net of sinking fund balances.

Net outstanding general obligation debt totaled \$10,206.6 million at June 30, 2023, an increase of \$121.9 million over June 30, 2022. Over the 10-year period ending June 30, 2023, total net outstanding general obligation debt decreased at an annual rate of 0.6 percent. Over the 5-year period ending June 30, 2023, total net outstanding general obligation debt has decreased at an annual rate of 3.9 percent.

General obligation debt for non-highway purposes of \$9,368.9 million was outstanding on June 30, 2023. Outstanding debt for these purposes decreased by a net \$189.4 million since June 30, 2022. For the period ending June 30, 2023, the 10-year and 5-year average annual compound growth rate for total outstanding debt for non-highway purposes has been -0.8 percent and -3.7 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 \$837.8 million on June 30, 2023, a decrease of \$67.4 million from June 30, 2022. Highway outstanding general obligation debt grew over the 10-year and 5-year periods ending June 30, 2023, at the annual average rates of 1.7 percent and -5.6 percent, respectively. A previous decline in outstanding highway debt was due to the policy that began in 1980 of funding highway capital projects with current revenues, except for very limited exceptions. However, beginning with fiscal year 2009, the Commonwealth initiated a multi-year plan to issue an average of \$200 million in general obligation bonds annually to accelerate the rehabilitation of a portion of the Commonwealth's 6,000 structurally deficient bridges. Funding to support such debt issuance was initially provided from an existing restricted account rather than from general revenues of the Motor License Fund or the General Fund. During the 2010 fiscal year, the Commonwealth issued \$200 million in general obligation bonds to jumpstart its bridge rehabilitation program. During fiscal years 2011, 2012, 2013 and 2014 the Commonwealth issued \$130 million, \$120 million, \$85 million and \$40 million, respectively, in general obligation debt for the bridge rehabilitation program.

Table 16, on the following page, shows selected debt ratios for the Commonwealth for fiscal year 2013 and for fiscal years 2019 through 2023. 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 2013 and 2019 through 2023
(In Millions)

	<u>2013</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023^(f)</u>
Net Outstanding Debt (Millions)						
General Obligation Debt(a)	\$ 10,860	\$ 11,559	\$ 10,750	\$ 10,939	\$ 10,085	\$ 10,206
Lease Payment Obligations(b).....	2,501	3,428	3,711	3,587	3,460	3,328
Total.....	\$ 13,362	\$ 14,987	\$ 14,461	\$ 14,526	\$ 13,544	\$ 13,534
% Increase (Decrease) over prior year	2.9%	0.0%	-3.5%	0.4%	-6.8%	-0.1%
Population (Thousands) *	12,781	12,802	12,783	12,964	12,969	12,955
Per Capita Debt.....	\$ 1,045	\$ 1,171	\$ 1,131	\$ 1,120	\$ 1,044	\$ 1,045
Personal Income (Millions) *	\$	\$	\$	\$	\$	\$
	589,000	737,161	788,725	830,397	752,430	719,406
Debt as a % of Personal Income	2.3%	2.0%	1.8%	1.8%	1.8%	1.9%
Debt Service (Millions)(c).....						
Highway Bonds(d).....	\$ 53	\$ 87	\$ 87	\$ 91	\$ 106	\$ 108
All Other Bonds.....	1,224	1,285	1,239	1,226	1,238	1,216
Lease Payments	149	161	165	178	173	173
Total.....	\$ 1,426	\$ 1,533	\$ 1,491	\$ 1,495	\$ 1,517	\$ 1,497
Increase (Decrease) Over Prior Year	6.7%	3.4%	(2.7%)	0.3%	1.5%	(1.3%)
Cash Revenues (Millions)(e)						
Motor License Fund.....	\$ 2,416	\$ 2,849	\$ 2,633	\$ 2,826	\$ 2,883	\$ 2,958
General Fund	28,647	34,858	32,276	40,392	48,134	44,917
Total.....	\$ 31,063	\$ 37,707	\$ 34,909	\$ 43,218	\$ 51,018	\$ 47,875
% Increase (Decrease) over prior year	3.2%	9.5%	(7.4%)	23.8%	18.1%	(6.2%)
.....						
Highway Bond Debt Service as a % of						
Motor License						
Fund Revenues.....	2.2%	3.1%	3.3%	3.2%	3.7%	3.7%
All Other Bond Debt Service and Lease	4.8%	4.2%	4.4%	3.5%	2.9%	3.1%
Payments as a % of General Fund						
Revenues.....						
Total Debt Service and Lease Payments	4.6%	4.1%	4.3%	3.5%	3.0%	3.1%
as a % of Motor Motor License and						
General Fund Revenues						

Source: Office of the Budget.

Prior fiscal year debt ratios can be found in previous Official Statements under Investor Information at www.budget.pa.gov.

(a) Net of all sinking fund balances.

(b) Includes unduplicated data of issues contained in Table 20.

(c) As paid from appropriations, available funds and/or sinking fund balances.

(d) Highway Bonds and Highway Bridge Improvement Bonds.

(e) Commonwealth revenues only.

(f) Preliminary, unaudited.

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

General Obligation Debt Outstanding

As of June 30, 2023, the Commonwealth had the following amount of general obligation debt outstanding:

Table 17
General Obligation Debt Outstanding as of June 30, 2023
(In Thousands)

	<u>Debt Outstanding</u>	<u>Less: Refunding Escrow^(a)</u>	<u>Less: Sinking Funds^(b)</u>	<u>Net Debt Outstanding</u>
Capital Projects Debt:				
Capital Facilities Bonds	\$ 6,276,433	\$ (100,265)	\$ (7,200)	\$ 6,168,968
Highway Bonds.....	511,792	(3,620)	-	508,172
Refunding Bonds	2,833,240	-	-	2,833,240
Total Capital Projects Debt Outstanding	\$ 9,621,465	\$ (103,885)	(7,200)	\$ 9,510,380
Electorate Approved Debt:				
PA Economic Revitalization Bonds.....	-	-	-	-
Land & Water Development Bonds.....	-	-	-	-
Nursing Home Loan Development Bonds	-	-	-	-
Volunteer Companies' Loan Bonds	-	-	-	-
Vietnam Veterans Compensation Bonds	-	-	-	-
Water Facilities Restoration-1981 Referendum.....	-	-	-	-
Pennvest—1988 Referendum Bonds	-	-	-	-
Pennvest—1992 Referendum Bonds	37,440	-	(22,728)	14,712
Agricultural Conservation Easement Bonds	-	-	-	-
Local Criminal Justice Bonds	-	-	-	-
Keystone Recreation, Parks & Conservation Bonds	-	-	-	-
Growing Greener Bonds	99,156	-	(6)	99,150
Water Supply and Wastewater Treatment Bonds	28,085	(6,050)	-	22,035
Persian Gulf Conflict Veterans	-	-	-	-
Water and Sewer Assistance	39,475	-	(4)	39,471
Total Electorate Approved Debt Outstanding	\$ 204,156	\$ (6,050)	\$ (22,738)	\$ 175,368
Other Bonded Debt:				
Disaster Relief Bonds.....	-	-	-	-
Refunding Bonds	520,885	-	-	520,885
Total Other Bonded Debt Outstanding	\$ 520,885	-	-	\$ 520,885
Total General Obligation Debt Outstanding	\$ 10,346,506	\$ (109,935)	\$ (29,938)	\$ 10,206,633

Source: Office of the Budget.

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

^(b) Funds already deposited in sinking funds.

Debt service payable during each fiscal year on outstanding general obligation debt, net of refunding escrow amounts, as of June 30, 2023, for the years shown below is set forth in Table 18.

Table 18
General Obligation Bond Debt Service
(In Thousands)

Fiscal Year Ending June 30	Principal	Interest	Total
2024	\$ 928,180	\$ 435,530	\$ 1,363,710
2025	901,850	390,593	1,292,443
2026	945,895	344,545	1,290,440
2027	926,795	300,138	1,226,933
2028	864,065	257,705	1,121,770
2029	796,995	217,900	1,014,895
2030	785,785	184,269	970,054
2031	624,020	153,812	777,832
2032	641,675	128,346	770,021
2033	540,520	103,555	644,075
2034	490,155	80,437	570,592
2035	407,630	61,546	469,176
2036	345,075	45,907	390,982
2037	294,705	33,985	328,690
2038	209,010	25,274	234,284
2039	216,965	17,709	234,674
2040	125,245	10,452	135,697
2041	92,005	6,653	98,658
2042	50,000	3,531	53,531
2043	50,000	1,250	51,250
Total	<u>\$10,236,570</u>	<u>\$2,803,136</u>	<u>\$13,039,706</u>

Source: Office of the Budget.

Totals may not add due to rounding.

Nature of Commonwealth Debt

Capital Projects Debt. The Commonwealth may incur debt to fund capital projects for community colleges, highways, bridge projects, public improvements, transportation assistance, flood control, and redevelopment assistance. Before a project may be funded, it must be itemized in a capital budget bill adopted by the General Assembly. An annual capital budget bill states the maximum amount of debt for capital projects that may be incurred during the current fiscal year for projects authorized in the current or previous years' capital budget bills. Capital projects debt is subject to the Constitutional debt limit.

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

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

Other Bonded Debt. Debt issued to rehabilitate areas affected by disasters is authorized by specific legislation. Authorizing legislation has given issuance authority to at least two of the three Issuing Officials, one of whom must be the Governor.

Tax Anticipation Notes. Due to the timing of major tax payment dates, the Commonwealth's General Fund cash receipts are generally concentrated in the last four months of the fiscal year, from March through June. Disbursements, however, are distributed more evenly throughout the fiscal year. As a result, operating cash shortages can occur during certain months of the fiscal year. When necessary, the Commonwealth engages in short-term borrowing to fund expenses within the fiscal year through the sale of tax anticipation notes. The authority to issue such notes rests with the Issuing Officials.

The Commonwealth may issue tax anticipation notes only for the account of the General Fund or the Motor License Fund or both such funds. The principal amount issued, when added to already outstanding amounts, may not exceed in the aggregate 20 percent of the revenues estimated to accrue to the appropriate fund or funds in the fiscal year.

Tax anticipation notes must mature within the fiscal year in which they are issued. The Commonwealth is not permitted to fund deficits between fiscal years with any form of debt. Any year-end deficit balances must be funded in the succeeding fiscal year budget.

Line of Credit (General Fund). The Commonwealth has entered into an investment agreement with the Pennsylvania Treasury Department which allows the Commonwealth to use governmental monies on deposit with the Treasury Department on a short-term basis to fund General Fund expenses within the fiscal year (the "STIP Facility"). Under the STIP Facility, the Treasury Department invested and the Commonwealth repaid \$650 million in fiscal year 2019 and \$1,700 million in fiscal year 2020. The Treasury Department did not make a STIP Facility investment in fiscal years 2021, 2022 or 2023. All amounts due and owing under the STIP Facility are repaid with interest within the same fiscal year in which they are invested. As of the date of this Official Statement, there is no STIP Facility in place or expected to be needed in fiscal year 2024.

In fiscal year 2021, the Commonwealth drew \$800 million from a line of credit from PNC Bank, which was repaid on April 1, 2021.

Line of Credit (Capital Facilities Fund). The Commonwealth has entered into an investment agreement with the Pennsylvania Treasury Department which allows the Commonwealth to use governmental monies on deposit with the Treasury Department on a short-term basis to fund capital expenses within the fiscal year. As of November 13, 2023, the Commonwealth had a \$200 million balance. Outstanding balances are repaid with interest at settlement of the next general obligation bond issue.

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

Projected Issuance of Long-Term Debt

Table 19 shows actual and projected future issuance of new-money general obligation bonds (or bond anticipation notes) through fiscal year 2028 as currently estimated, based on current authorizations. Bonds authorized under the economic stimulus program and other programs of the Commonwealth Financing Authority are not included in the table below. Actual issuance of bonds will be affected by several economic and other factors and may vary significantly from the projections contained in Table 19 below.

Table 19
General Obligation Bond Issuance and Principal Retirements
Fiscal Years 2024-2028^(a)
(In Millions)

	Fiscal Year Ended June 30				
	2024	2025	2026	2027	2028
Capital Facilities ^(b)					
Buildings and Structures	\$600	\$600	\$600	\$600	\$600
Furniture and Equipment	10	10	10	10	10
Transportation Assistance	350	175	175	175	175
Redevelopment Assistance	375	375	300	300	300
Flood Control	0	0	0	0	0
Highway and Bridge Projects	0	0	0	0	0
Special Purpose:					
Pennvest — 1988, 1992 & 2008					
Referenda ^(a)	0	0	0	0	0
Water and Wastewater Referendum	0	0	0	0	0
Growing Greener II Referendum	0	0	0	0	0
Total Projected Issuance	<u>\$1,335</u>	<u>\$1,160</u>	<u>\$1,085</u>	<u>\$1,085</u>	<u>\$1,085</u>
Principal Retirement(c)	<u>\$928</u>	<u>\$969</u>	<u>\$1,072</u>	<u>\$1,107</u>	<u>\$1,099</u>

Source: Office of the Budget.

Totals may not add due to rounding.

(a) As set forth in the fiscal year 2024 enacted 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

The Pennsylvania Housing Finance Agency (“PHFA”) is a State-created agency that provides financing for housing for low and moderate-income families, and people with special housing needs in the Commonwealth. The bonds, but not the notes, of the PHFA are partially secured by a capital reserve fund required to be maintained by the PHFA in an amount equal to the minimum capital reserve fund required for such fund. If there is a potential deficiency in the capital reserve fund or if funds are necessary to avoid default on interest, principal or sinking fund payments on bonds or notes of PHFA, the statute creating PHFA directs the Governor, upon notification from PHFA, to include in the proposed executive budget of the Commonwealth for the next succeeding year an amount sufficient to fund such deficiency to avoid such default. The budget, as passed, by the General Assembly may or may not include the amount so requested

by the Governor. PHFA is not permitted to borrow additional funds so long as any deficiency exists in the Capital Reserve Fund. No deficiency exists currently.

According to PHFA, as of June 30, 2023, PHFA had \$4,547.8 million of revenue bonds outstanding.

Lease Financing

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

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Table 20
Obligations Secured by Commonwealth
Annual Appropriations as of June 30, 2023
(In Thousands)

<u>Entity</u>	<u>Purpose</u>	<u>Maximum Annual Principal</u>	<u>Principal Amount Outstanding⁽¹⁾</u>	<u>Final Maturity</u>
Harristown Development Corporation	Office Space	\$ 5,685	\$ 5,685	May 1, 2024
Sports & Exhibition Authority of Pittsburgh and Allegheny County	Public Auditorium	18,465	214,090	Nov. 1, 2039
NORESCO, LLC	Equipment	2,070	7,120	Oct. 1, 2026
NORESCO, LLC	Equipment	1,455	4,835	Oct. 1, 2026
NORESCO/Johnson Controls	Equipment	4,195	20,705	Apr. 1, 2027
Pennsylvania Economic Development Finance Authority	Convention Center	23,680	179,330	June 15, 2039
Commonwealth Financing Authority	General Government	306,850	3,906,585	June 1, 2043
Pennsylvania Economic Development Finance Authority	Office Space	17,580	86,985	Mar. 1, 2034
Pennsylvania Economic Development Finance Authority	Rapid Bridge Replacement	43,290	609,665	June 30, 2042
Department of General Services	Lease/Lease Back	12,745	184,970	June 30, 2046
Pennsylvania Economic Development Finance Authority	County Voting Apparatus	8,320	52,220	June 1, 2030

Source: Office of the Budget.

(1) Principal amount outstanding as of June 30, 2023.

In 2009, the Commonwealth executed an annually renewable lease purchase agreement with CAFCO-PA Leasing I, LLC, a Colorado limited liability company, to assist the Commonwealth, acting through its Department of Corrections, to acquire certain modular prison dormitory facilities. Certificates of participation in the amount of \$19.3 million were issued in December 2009. The certificates of participation are payable from lease payments made by the Commonwealth from, and subject to, annual appropriation to its Department of Corrections.

In 2010, the Commonwealth executed an installment purchase agreement with Noresco, LLC, a Massachusetts limited liability company (“Noresco”). The purpose of the installment purchase agreement is to assist the Commonwealth, acting through its Department of Human Services, to acquire certain energy-savings improvements at Ebensburg State Center, an intermediate care facility. Certificates of participation in the amount of \$15.6 million were issued in March 2010 and are payable from lease payments made by the Commonwealth from, and subject to, annual appropriation to its Department of Human Services. The Commonwealth has also entered into additional installment purchase agreements with Noresco and Johnson Controls. Certificates of participation in the amount of \$86.9 million were issued in October 2010 and are payable by the Commonwealth from, and subject to, annual appropriations to its Departments of General Services, Corrections and Human Services. Certificates of participation in the amount of \$12.4 million were issued in December 2010 and are payable by the Commonwealth from, and subject to, annual

appropriations to its Departments of General Services and Human Services. The purpose of the additional installment purchase agreements was to assist the Commonwealth, acting through various departments, to acquire certain energy-saving 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, the Pennsylvania Economic Development Financing Authority (“PEDFA”) issued lease revenue bonds in the principal amount of \$107.4 million to acquire the Forum Place complex from the then-controlling majority holder of the defaulted 1998 Dauphin County General Authority bonds. Contemporaneous with the issuance of the PEDFA bonds to acquire the Forum Place, the Capital Region Economic Development Corporation (CREDC) entered into an agreement with both the Commonwealth and PEDFA pursuant to which the Commonwealth leases approximately 375,000 square feet of office space and 500,000 square feet of parking space in the Forum Place complex from CREDC. The PEDFA Bonds are payable from lease payments made by the Commonwealth to CREDC from and subject to annual appropriations authorizing payments to various Commonwealth agencies occupying the leased space.

Lease for Pittsburgh Penguins Arena

In October 2007, the Commonwealth and the Sports and Exhibition Authority of Pittsburgh and Allegheny County (the “SEA”) entered into a lease agreement (the “Arena Lease”) that, while not creating indebtedness of the Commonwealth, creates a “subject to appropriation” obligation of the Commonwealth. The SEA, a joint public benefit authority, issued in October 2007 its \$313.3 million Commonwealth Lease Revenue Bonds (the “Arena Bonds”) to finance a multi-purpose arena (the “Arena”), to serve as the home of the Pittsburgh Penguins (the “Penguins”), a hockey team in the National Hockey League. The Arena Bonds are not debt of the Commonwealth but are limited obligations of the SEA payable solely from the special revenues pledged therefor. These special revenues include annually (1) \$4.1 million from a lease with the Penguins, (2) not less than \$7.5 million from the operator of a casino located in the City of Pittsburgh, and (3) \$7.5 million from the Commonwealth’s Economic Development and Tourism Fund (the “Development and Tourism Fund”). The Development and Tourism Fund is funded with an assessment of five percent of the gross terminal revenue of all total wagers received by all slot machines in the Commonwealth less cash payments.

While the special revenues were projected to be adequate to pay all debt service on the Arena Bonds, the revenues have not been able to fully cover the debt service. To the extent such revenues are in any year inadequate to cover debt service, the Commonwealth is obligated under the Arena Lease to fund such deficiency, subject in all cases to appropriation by the General Assembly. The maximum annual amount payable by the Commonwealth under the Arena Lease is \$18.6 million. In December 2009, the Commonwealth was notified by the SEA that an additional \$2.8 million would be required in fiscal year 2010 to support debt service. In compliance with its obligations under the Arena Lease, the Commonwealth included an appropriation request for \$2.8 million from the Pennsylvania Gaming and Economic Development Tourism Fund in its fiscal year 2010 budget. Subsequent to the fiscal year 2010 budget, the Commonwealth has been annually notified by the SEA that additional funds are required to support debt service. In each subsequent year, the Commonwealth included the appropriation request in the appropriate fiscal year budget. In fiscal year 2013, the actual amount appropriated to support the SEA debt service was \$736,852.71; in fiscal year 2014, it was \$625,131.51; in fiscal year 2015 it was \$357,712.30; in fiscal year 2016 it was \$640,624.36; in fiscal year 2017 it was \$222,129.79; in fiscal year 2018 it was \$754,059.60; in fiscal year 2019 the debt service was \$695,000.00; in fiscal year 2020 the debt service was \$783,144.78; in fiscal year 2021 the debt service was \$262,764.24; in fiscal year 2022 the debt service was \$243,753.68 and in fiscal year 2023 the debt service was \$191,346.38.

During April 2010, the SEA issued \$17.4 million in additional Commonwealth Lease Revenue Bonds (the “Supplemental Arena Bonds”) to complete the Arena. The Supplemental Arena Bonds do not constitute debt of the Commonwealth but are limited obligations of the SEA payable solely from the special revenues pledged therefor. As with the Arena Bonds, the Commonwealth is obligated under the Arena Lease, as amended, to fund any deficiency in special revenues necessary to pay debt service on the Supplemental Arena Bonds, subject in all cases to appropriation by the General Assembly. As of the date of this Official Statement, all or a portion of the Arena Bonds are expected to be refunded in the December of 2023.

Pennsylvania Convention Center

In April 2010, the Commonwealth acquired (through ownership and a long-term leasehold interest) the Pennsylvania Convention Center located in Philadelphia, Pennsylvania and the expansion thereto in 2011. Such acquisition was financed through the issuance by PEDFA of \$281.1 million of revenue bonds (the “Convention Center Bonds”). The Commonwealth, the City of Philadelphia (the “City”) and the Pennsylvania Convention Center Authority (the “Convention Center Authority”) entered into an Operating Agreement (the “Operating Agreement”) in connection with the issuance of the Convention Center Bonds and the acquisition of the Pennsylvania Convention Center which provides for the operation of the Pennsylvania Convention Center by the Convention Center Authority (which also leases the facility), for the City to make an annual payment of \$15 million plus a percentage of its Hotel Room Rental Tax and Hospitality Promotion Tax revenues to support operations of the Pennsylvania Convention Center and for the Commonwealth to make payments to finance operating deficits and operating and capital reserve deposits of the Pennsylvania Convention Center and to pay debt service on the Convention Center Bonds. The Commonwealth also entered into a Grant Agreement (the “Grant Agreement”) with PEDFA and U.S. Bank National Association, as trustee for the Convention Center Bonds, with respect to the obligations of the Commonwealth to make the payments required under the Operating Agreement and related amounts due with respect to the Pennsylvania Convention Center and the Convention Center Bonds.

The obligations of the Commonwealth under the Operating Agreement and the Grant Agreement do not create indebtedness of the Commonwealth but are payable from (1) funds available in the Gaming Economic Development and Tourism Fund and (2) other funds of the Commonwealth, subject to annual appropriation by the State legislature. Payments from the Gaming Economic Development and Tourism Fund of up to \$64 million per year for up to 30 years (but not exceeding \$880 million in the aggregate) have been appropriated by the General Assembly (by Act 53 of 2007) 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 of 2007, or otherwise that funds in the Gaming Economic Development and Tourism Fund be so applied. Moneys in the Gaming Economic Development and Tourism Fund have also been appropriated by the General Assembly to several other projects and could be appropriated to additional projects in the future. The Gaming Economic Development and Tourism Fund is funded with an assessment of five percent of the gross terminal revenue of all total wagers received by all slot machines in the Commonwealth less cash payments. While the Gaming Economic Development and Tourism Fund is projected to continue to have sufficient revenues to pay its current appropriated obligations, there can be no absolute assurance that the Gaming Economic Development and Tourism Fund in any future fiscal year will receive sufficient receipts to pay its appropriated obligations.

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

Commonwealth Financing Authority

The Commonwealth Financing Authority (“CFA”) was established in April 2004 with the enactment of legislation establishing the CFA as an independent authority and an instrumentality of the Commonwealth. The CFA is authorized to issue limited obligation revenue bonds and other types of limited obligation revenue financing for the purposes of promoting the health, safety, employment, business opportunities, economic activity and general welfare of the Commonwealth and its citizens through loans, grants, guarantees, leases, lines and letters of credit and other financing arrangements to benefit for-profit, non-profit, and various government entities. The CFA’s bonds and financings are to be secured by revenues and accounts of the CFA, including funds appropriated to CFA from general and other revenues of the Commonwealth for repayment of CFA obligations. The obligations of the CFA do not constitute a debt or liability of the Commonwealth.

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

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

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

As part of the enactment process for the fiscal year 2009 budget, the General Assembly enacted and on July 9, 2008, the Governor signed into law Act 63 of 2008 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 of 2008 also provides for the use of Pennsylvania Gaming and Economic Development and Tourism Fund revenues to support debt service costs associated with the \$800 million in additional CFA debt authority. Act 1 provides the CFA with authority to issue up to \$500 million in limited obligation revenue bonds to fund the development of alternative sources of energy. As of 2021, the CFA has issued \$473 million in limited obligation revenue bonds authorized by Act 1 and \$757 million in limited obligation revenue bonds authorized by Act 63 of 2008. Other than bonds for refunding purposes, there currently are no plans to issue additional debt for these programs.

As of June 30, 2023, the CFA had \$4,336.4 million in outstanding bond debt (including Tobacco Bonds). With respect thereto, a restricted revenue account is funded annually through a Sales and Use Tax Transfer as the source used to service approximately \$3,759.3 million of outstanding debt and the Pennsylvania Gaming and Economic Development and Tourism Fund has been the source used to service approximately \$597.6 million of such outstanding debt.

Pursuant to Act 25 of 2016, the CFA is authorized to issue debt related to the Commonwealth’s share of school district construction costs referred to as the PlanCon process. Act 25 of 2016 established a new funding mechanism to pay school districts for construction reimbursements due to them and to fund

capital grants to school districts as part of the PlanCon process. The CFA is authorized to issue up to \$2,500 million in appropriation backed debt in connection with the Commonwealth’s share of school construction costs; debt in excess of \$2,500 million may be incurred by CFA for this purpose if CFA and the Department of Education determine that \$2,500 million is insufficient to carry out the purposes of Act 25 of 2016 and if the Secretary of the Budget approves such determination. The expectation is that the borrowings (other than refunding bonds) will occur from time to time through fiscal year 2025 based on statute as authorized by Act 25 of 2016. As of May 31, 2020, the CFA has issued \$1,903.1 million for construction reimbursement purposes under Act 25 of 2016.

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

Pensions and Retirement

General Information

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

History of Retirement System Participants

Year ^(a)	PSERS			SERS		
	Total Annuitants, Beneficiaries and Survivor Annuitants	Active Members	Total Membership	Total Annuitants and Beneficiaries	Active Members	Total Membership ^(b)
2018	233,288	256,362	489,650	131,007	103,007	234,014
2019	237,339	255,749	493,088	132,731	102,850	235,581
2020	239,614	256,246	495,860	133,334	100,962	234,296
2021	242,839	248,145	490,984	134,360	97,857	232,217
2022	246,901	247,873	494,774	135,647	96,395	232,042

Source: Pennsylvania State Employee Retirement System and Public School Employees Retirement System.

^(a) PSERS data as of June 30, 2022, SERS data based upon calendar year 2022.

^(b) Does not include inactive plan members entitled to but not yet receiving benefits.

SERS and PSERS are established by State law as independent administrative boards of the Commonwealth, each directed by a governing board that exercises control and management of its system, including the investment of its assets. The SERS board consists of eleven members, five appointed by the Governor, two members each from the Senate and House of Representatives, the Secretary of Banking and Securities, and the State Treasurer. The PSERS board has fifteen members, including the Commonwealth’s

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

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

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

The contribution rate for PSERS members who enrolled in the pension plan on or after January 1, 2002 and before July 1, 2011 is 7.5 percent of compensation. Effective July 1, 2021 the contribution rates for PSERS members who enrolled on or after July 1, 2011 and before June 30, 2019 were increased by 0.5 percent to 8.0 percent or 10.8 percent, depending upon elections made by each member, in accordance with member shared risk provisions of the retirement code. The new rates will remain in effect through June 30, 2024 when they may be adjusted based on the results of the next shared risk measurement period. For PSERS members enrolled on July 1, 2019 or thereafter member contribution rates are set forth in Act 5 of 2017 ("Act 5"). The contribution rates for PSERS members who enrolled prior to January 1, 2002 range from 5.25 percent to 7.5 percent of compensation, depending upon the date of commencement of employment and elections made by each employee member. The SERS' employee contribution rate is 6.25 percent for most member employees. Interest on each employee's accumulated contributions is credited annually at a 4 percent rate mandated by State statute. Accumulated contributions plus interest credited are refundable to covered employees upon termination of their employment for most members.

Act 5 established three pension plan design options for most State employees hired on or after January 1, 2019 and for most school employees hired on or after July 1, 2019. The plan designs for SERS and PSERS under Act 5 are available electronically at the following respective websites: www.psers.pa.gov and www.sers.pa.gov.

Investment Performance

SERS returns for the calendar years 2018, 2019, 2020, 2021, and 2022 were -4.6 percent, 18.8 percent, 11.1 percent, 17.2, and -12.2 percent respectively. PSERS' fiscal years 2018, 2019, 2020, 2021,

and 2022 investment performance were 9.27 percent, 6.68 percent, 1.12 percent, 24.58 percent and 2.23 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 ^(a)
(In Millions)

Fiscal Year Ended June 30	Employer Contributions	Employee Contributions^(a)	Net Investment Income (Loss)	Total Deductions From Plan Net Assets^(b)	Plan Net Assets^(c)
2018	4,288 ^(d)	1,026	4,716	6,816	56,493
2019	4,608	1,064	3,631	6,928	58,868
2020	4,801	1,076	1,004	7,041	58,708
2021	4,891	1,100	14,764	7,301	72,162
2022	5,141	1,167	(283)	7,424	70,763

Source: Pennsylvania Public School Employees Retirement System.

^(a) Excludes PSERS Health Options Plan activity.

^(b) Includes PSERS administrative expenses.

^(c) Includes the effect of change in accounting principle of \$80.

Investment Return Reporting vs. Financial Statement Reporting

For PSERS the fiscal year 2022 time-weighted investment rate of return is a positive 2.23 percent in contrast to the fiscal year 2022 net investment (loss) of \$(283) million. This difference is due to the Pension industry’s use of quarter lag reporting for certain asset classes for investment return reporting. For financial statement reporting purposes, nearly all Real estate and Alternative investments are valued based on June 30, 2022 valuations. For investment return reporting, the Real estate and Alternative investments are based on quarter lag valuations as of March 31, 2022. As a result, the financial statements include a net valuation decrease of \$(317) million at June 30, 2022 that will not be recognized in the investment returns for fiscal year 2022. In fiscal year 2021, the financial statements included a June 30, 2021 Real estate and Alternative investment valuation increase of \$1.9 billion which was not recognized in the investment returns until fiscal year 2022. The combined impact of the fiscal year 2021 and fiscal year 2022 quarter lag valuation adjustments is \$2.2 billion. As a result, the fiscal year 2022 investment returns are higher than the net investment loss recognized in the financial statements. This combined impact is the reason why the financial statements have a Net Investment Loss of \$(283) million and fiscal year 2022 investment returns are a positive 2.23 percent.

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Table 22
State Employees' Retirement Fund
(In Millions)

Fiscal Year Ended December 31	Employer Contributions	Employee Contributions	Net Investment Income/Loss^(a)	Total Deductions From Fiduciary Net Position^(b)	Fiduciary Net Position^(c)
2018	2,049	394	(1,442)	3,469 ^(d)	26,937
2019	2,115	405	5,175	3,536	31,096
2020	3,187 ^(e)	410	3,919	3,584	35,028
2021	2,871 ^(f)	405	5,683	3,756	40,231
2022	2,075	418	(5,213)	3,904	33,607

Source: Pennsylvania State Employee Retirement System.

^(a) Includes net appreciation (depreciation) in fair value of investments.

^(b) Includes SERS administrative costs.

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

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

^(e) In April 2020, Penn State University submitted a payment of \$1.06 billion toward its unfunded liability. In return, the university will receive an annual credit against their contributions for 30 years, beginning in fiscal year 2021. The credit totals nearly \$93.3 million for twenty years and then decreases over the final 10 years beginning at nearly \$72.6 million and ending at approximately \$2.3 million in fiscal year 2049-50. The 2020 employer contributions include this lump sum payment.

^(f) In April 2021, the Pennsylvania State System of Higher Education submitted a payment of \$825 million toward its unfunded liability. In return, the organization will receive an annual credit against their contributions for 30 years, beginning with fiscal year 2022. The credit totals more than \$79.9 million for ten years and then decreases over the final 20 years beginning at more than \$69.4 million and ending at nearly \$2.7 million in fiscal year 2050-51. The 2021 employer contributions include this lump sum payment.

Actuarial Calculations and Unfunded Actuarial Accrued Liability

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

unfunded actuarial accrued liability for recent years with completed valuations is shown in Table 23 below for both SERS and PSERS.

The Boards of PSERS and SERS hire their actuarial firms through a competitive Request for Proposal process generally for a five-year term. PSERS current actuary is Buck Global, LLC, and SERS actuary is Korn Ferry Hay Group. The Boards of PSERS and SERS periodically review their respective system actuarial assumptions with actuaries, investment consultants and staff and determine whether to make any prospective changes to these assumptions. Actuarial data and information for each system is available from their respective websites. Both Boards have adopted changes to their respective system actuarial assumptions. In June 2016, the PSERS Board decreased the actuarial rate of return for a fourth time in eight years from 7.5 percent to 7.25 percent for the June 30, 2016 actuarial valuation based on a further reduction in expected long term capital market return assumptions. As discussed below, PSERS Board decreased the actuarial rate of return assumption from 7.25 percent to 7.0 percent for the June 30, 2021 valuation. The SERS Board decreased the actuarial rate of return from 7.5 percent to 7.25 percent for the December 31, 2016 valuation. The SERS Board decreased the actuarial rate of return from 7.25 percent to 7.125 percent for the December 31, 2019 valuation. The SERS Board decreased the actuarial rate of return from 7.125 percent to 7.0 percent for the December 31, 2020 valuation. The SERS Board maintained the actuarial rate of return at 7.0 percent for the December 31, 2021 valuation. The SERS Board decreased the actuarial rate of return from 7.0 percent to 6.875 percent for the December 31, 2022 valuation. These changes to SERS' and PSERS' investment return assumptions bring both Fund's return assumptions below the median assumption used by public pension funds nationally.

Table 23
Unfunded Actuarial Accrued Liability
2018-2022
(In Millions)

<u>Valuation Year Ended In</u>	<u>SERS^(a)</u>	<u>PSERS^(b)</u>
2018	22,793	44,855
2019	23,039	44,134
2020	22,395	44,034
2021	16,080	45,534
2022	17,489	43,965

Source: Pennsylvania State Employee Retirement System and Public School Employees Retirement System.

^(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. Amounts presented are for Pension only and excludes Premium Assistance.

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

the payroll growth assumption from 3.50 percent to 3.25 percent. The aggregate impact of all assumption changes increased PSERS unfunded actuarial liability by approximately \$2.8 billion.

For PSERS, its funded ratios as of June 30, 2017 were 56.3 percent and 51.8 percent on an actuarial and market value basis, respectively. As of June 30, 2018, PSERS funded ratios were 56.5 percent and 54.0 percent on an actuarial and market value basis, respectively. As of June 30, 2019, PSERS funded ratios were 58.1 percent and 55.7 percent on an actuarial and market value basis, respectively. As of June 30, 2020, PSERS funded ratios were 59.2 percent and 54.4 percent on an actuarial and market value basis, respectively. As of June 30, 2021, PSERS funded ratios were 59.6 percent and 63.9 percent on an actuarial and market value basis, respectively. As of June 30, 2022, PSERS funded ratios were 61.6 percent and 61.7 percent on an actuarial and market value basis, respectively.

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

For SERS, its funded ratios as of December 31, 2017 were 59.4 percent and 60.7 percent on an actuarial and market value basis, respectively. For SERS, its funded ratios as of December 31, 2018 were 56 percent and 52 percent on an actuarial and market value basis, respectively. For SERS, its funded ratios as of December 31, 2019 were 56.5 percent and 58.7 percent on an actuarial and market value basis, respectively. As of December 31, 2020, SERS funded ratios were 59.4 percent and 63.6 percent on an actuarial and market value basis, respectively. As of December 31, 2021, SERS funded ratios were 69.6 percent and 76.0 percent on an actuarial and market value basis, respectively. As of December 31, 2022, SERS funded ratios were 68.0 percent and 61.5 percent on an actuarial and market value basis, respectively.

Changes in the SERS unfunded actuarial liability are attributable to several factors that include actual investment returns, the reduction in the actuarial assumed rate of return from 7.0% to 6.875%, as well as differences between actual and expected results.

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

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

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

Public School Employees’ Retirement Fund^(a)			
Year Ended June 30	ADC or ARC^(a)	Actual Employer Contributions	Percentages Contributed
2022	\$4,985,571	\$4,985,571	100%
2021	4,752,338	4,752,338	100
2020	4,671,931	4,671,931	100
2019	4,478,236	4,782,326	100
2018	4,243,328	4,243,328	100

State Employees’ Retirement Fund^(b)			
Year Ended December 31	ADC or ARC^(b)	Actual Employer Contributions	Percentages Contributed
2022	\$2,066,132	\$2,066,132	100%
2021	2,078,951	2,858,088 ^(d)	138
2020	2,164,144	3,174,854 ^(c)	147
2019	2,106,138	2,106,138	100
2018	2,040,434	2,040,434	100

Source: Pennsylvania State Employee Retirement System and Public School Employees Retirement System.

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

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

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

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

^(*) Net of purchase of service contributions.

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Table 25 below provides the State’s projected employer contribution rates expressed as a percentage of the actuarially determined covered payroll for PSERS and SERS for fiscal years 2022 through 2026.

Table 25
Projected Employer Contribution Rates

Fiscal Year	PSERS ^(b)	SERS ^(c)
2022 ^(a)	34.94%	34.10%
2023	35.26	35.27
2024	34.00	34.12
2025	34.73	33.88
2026	35.49	34.02

Source: Pennsylvania State Employee Retirement System and Public School Employees Retirement System.

^(a) The fiscal year 2022 employer contribution rates are actual rates which began on July 1, 2022.

^(b) The projection of contribution rates is an assumption that there are no changes in demographic assumptions, no changes in benefit provisions, and no actuarial gains or losses other than gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets. In addition, a constant active population is assumed with future new members to be Class T-G members with the same demographic characteristics of new members during the period 7/1/2018 to 6/30/2022.

^(c) These projections are based on SERS economic and demographic actuarial assumptions in place for the 12/31/2022 valuation.

For PSERS as of June 30, 2022, the employer net pension liability was \$44.5 billion while plan fiduciary net position as a percentage of the total pension liability was 61.34 percent. For PSERS as of June 30, 2021, and 2020, the employer net pension liability was \$41.1 billion and \$49.3 billion, respectively, while plan fiduciary net position as a percentage of the total pension liability was 63.67 percent and 54.32 percent, respectively.

Over the past 6 years the longer-term trend of the employer net pension liability has decreased from \$49.6 billion to \$44.5 billion and the plan fiduciary net position as a percentage of total pension liability has increased from 50.14 percent to 61.34 percent over that time period. For PSERS as of June 30, 2022, actuarially determined contribution (ADC) and contributions in relation to the ADC were both \$4,986 million. For PSERS as of June 30, 2021, actuarially determined contribution (ADC) and contributions in relation to the ADC were both \$4,752 million.

SERS is the administrator of a cost-sharing multiple-employer defined benefit pension plan and reports required items per GASB 67 in Notes to Financial Statements as well as in Required Supplementary Information starting with its 2014 Annual Comprehensive Financial Report. SERS implemented GASB 67 as of December 31, 2014, but also retroactively reported as of December 31, 2013. For SERS as of December 31, 2022, net pension liability was \$21.0 billion while plan fiduciary net position as a percentage of the total pension liability was 61.5 percent. For SERS as of December 31, 2021, net pension liability was \$12.7 billion while plan fiduciary net position as a percentage of the total pension liability was 76.0 percent. For SERS as of December 31, 2020 and 2019, net pension liability was \$17.2 billion and \$18.2 billion, respectively, while plan fiduciary net position as a percentage of the total pension liability was 67.0 percent and 63.1 percent, respectively. For SERS as of June 30, 2022, actuarially determined contribution (ADC) and contributions in relation to the ADC were both \$2.1 billion. For SERS as of December 31, 2021, actuarially determined contributions are \$2.1 billion and contributions in relation to

ADC are \$2.9 billion. Actual contributions for 2021 include the \$825 million lump sum payment received from the Pennsylvania State System of Higher Education as indicated in footnote (d) of Table 24. For SERS as of December 31, 2020, actuarially determined contribution (ADC) were \$2.2 billion and contributions in relation to the ADC were \$3.2 billion. Actual contributions for 2020 include the \$1.06 billion lump sum payment received from Penn State University as indicated in footnote (c) of Table 24. For SERS as of December 31, 2019, actuarially determined contribution (ADC) and contributions in relation to the ADC were both \$2.1 billion.

Other Post-Employment Benefits

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

The General Assembly, based upon the Governor’s request, annually appropriates funds to meet the obligation to pay current retiree health care benefits on a “pay-as-you-go” basis. Retiree health care expenditures are currently funded by the Commonwealth’s General Fund (approximately 41 percent), and by Federal, Other and Special Funds. Commonwealth costs for such benefits totaled \$694 million in fiscal year 2019, \$579 million in fiscal year 2020, \$410 million in fiscal year 2021, \$372 million in fiscal year 2022 and \$448 million in fiscal year 2023.

Governmental Accounting Standards Board Statements #74/75

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

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

In fiscal year 2023, \$50 million was transferred to the REHP Trust Account and \$1 million was transferred to the RPSPP Trust Account from the pre-existing restricted receipt accounts. No additional transfers have been made to the trust accounts. At June 30, 2023, the combined balance in the trust accounts and restricted receipt accounts was \$919 million.

The Commonwealth has retained Deloitte Consulting, LLP, a multinational professional services firm, to provide actuarial services for GASB 75 implementation and reporting. The Deloitte Consulting's fiscal year 2022 OPEB valuation for the REHP and RPSPP programs is updated to reflect the following:

The combined NOL reported as of June 30, 2022 was \$16,481 million. The NOL for the REHP was \$9,867 million comprised of an actuarial accrued liability of \$10,488 million less \$621 million of plan assets. The NOL for the RPSPP was \$6,614 million comprised of an actuarial accrued liability of \$6,735 million less \$121 million of plan assets.

GOVERNMENT AUTHORITIES AND OTHER ORGANIZATIONS

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

Delaware River Joint Toll Bridge Commission ("DRJTBC"). The DRJTBC, a public corporation of the Commonwealth and New Jersey, owns and operates toll and non-toll bridges across the Delaware River north of the toll bridges operated by DRPA (defined below). Debt service on bonds is paid from tolls and other revenues of DRJTBC. DRJTBC had \$645.8 million in bonds outstanding as of June 30, 2023.

Delaware River Port Authority ("DRPA"). The DRPA, a public corporation of the Commonwealth and New Jersey, operates several toll bridges over the Delaware River within and near Philadelphia, and promotes the use of the Philadelphia-Camden port and promotes economic development in the port district. Debt service on bonds is paid from toll revenues and other revenues pledged by DRPA to repayment of bonds. The DRPA had \$1,031.6 million in revenue bond debt outstanding as of June 30, 2023.

Pennsylvania Economic Development Financing Authority. PEDFA was created in 1987 to offer pooled bond and other bond issues of both taxable and tax-exempt bonds on behalf of local industrial and commercial development authorities for economic development projects. Bonds may be payable from and secured by loan repayments and all other revenues of the PEDFA. The PEDFA had \$8,568.5 million of debt outstanding as of June 30, 2023.

Pennsylvania Higher Education Assistance Agency ("PHEAA"). The PHEAA makes or guarantees student loans to students or parents, or to lending institutions or post-secondary institutions. Debt service on the bonds is paid by loan interest and repayments and other agency revenues. The PHEAA had \$2,135.2 million in bonds outstanding as of June 30, 2023.

Pennsylvania Higher Educational Facilities Authority ("PHEFA"). The PHEFA is a public corporation of the Commonwealth established to finance college facilities. As of June 30, 2023, the PHEFA had \$5,010.5 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 \$24.3 million in revenue bond debt outstanding on June 30, 2023, to which all its revenues are pledged.

Pennsylvania Infrastructure Investment Authority (“Pennvest”). Pennvest was created in 1988 to provide low- interest rate loans and grants for the purpose of constructing new and improving existing water supply and sewage disposal systems to protect the health and safety of the citizens of the Commonwealth and to promote economic development within the Commonwealth. Loans and grants are available to local governments and, in certain circumstances, to private companies. The Pennvest bonds are secured by principal repayments and interest payments on Pennvest loans. Pennvest had \$73.9 million of revenue bonds outstanding as of June 30, 2023.

Pennsylvania Turnpike Commission (“PTC”). The PTC operates the Pennsylvania Turnpike System (“System”). Its outstanding indebtedness, \$15,380.2 million as of June 30, 2023, is payable from the net revenues of the System, primarily toll revenues, or from certain taxes dedicated to the System.

State Public School Building Authority (“SPSBA”). The SPSBA finances public school projects and community college capital projects. Bonds issued by the SPSBA are supported by the lease rental payments or loan repayments made to the SPSBA by local school districts and the community colleges. A portion of the funds appropriated annually by the Commonwealth as aid to local school districts and community colleges may be used by them to pay a portion of such lease rental payments or loan repayments. The SPSBA had \$2,246.7 million of revenue bonds outstanding as of June 30, 2023.

City of Philadelphia – Pennsylvania Intergovernmental Cooperation Authority

The Pennsylvania Intergovernmental Cooperation Authority (“PICA”) was created by Act 6 of 1991 to assist the City of Philadelphia (the “City”), the Commonwealth’s largest city, in remedying its fiscal emergencies. PICA is authorized to provide financial assistance to the City through the issuance of debt, and to make factual findings and recommendations to the City concerning its budgetary and fiscal affairs. This financial assistance has included grants used by the City for defeasance of certain City general obligation bonds, funding of capital projects, and the liquidation of the cumulative general fund deficit of the City, as of June 30, 1992, of \$224.9 million. Under the PICA act, the City is required to submit to PICA: (i) a five-year financial plan on an annual basis; and (ii) quarterly financial reports. Currently the City is operating under a five-year financial plan that covers fiscal years 2020 through 2024, which was approved by PICA.

Over the years, the City has expressed a desire to retain the financial oversight and reporting requirements of the PICA act beyond the expiration of the PICA Bonds. Act 36 of 2022 amended the PICA act to, among other things, (i) extend the term of PICA’s existence until the later of (A) January 2, 2047 or (B) one year after all its liabilities are met or, in the case of PICA Bonds, one year after provision for such payment shall have been made or provided for in the applicable bond indenture; (ii) continue all of the financial oversight and reporting requirements of the PICA act for the life of PICA (regardless of whether PICA Bonds are outstanding); (iii) permit on a limited basis, at the request of the City, the issuance of PICA Bonds for capital projects of the City; and (iv) continue the authorization and dedication of the PICA Tax for so long as PICA remains in existence (regardless of whether any PICA Bonds are outstanding).

Neither the taxing power nor the credit of the Commonwealth is pledged to pay debt service on the PICA bonds. There are no PICA bonds outstanding as of June 30, 2023.

LITIGATION

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

In 1978, the General Assembly approved a limited waiver of sovereign immunity with respect to lawsuits against the Commonwealth. This cap does not apply to tax appeals, such as *Nextel Communications* as detailed below. Damages for any loss are limited to \$250,000 for each person and \$1,000,000 for each accident. The Supreme Court of Pennsylvania has held that this limitation is constitutional. Approximately 1,400 suits against the Commonwealth remain open. Tort claim payments for the departments and agencies, other than the Department of Transportation, are paid from departmental and agency operating and program appropriations. Tort claim payments for the Department of Transportation are paid from an appropriation from the Motor License Fund. The Commonwealth also represents and indemnifies employees who have been sued under Federal civil rights statutes for actions taken in good faith in carrying out their employment responsibilities. There are no caps on damages in civil rights actions. The Commonwealth's self-insurance program covers damages in these civil cases up to \$250,000 per incident. Damages in excess of \$250,000 are paid from departmental and agency operating and program appropriations.

***Pennsylvania Professional Liability Joint Underwriting Association v. Wolf*, Nos. Nos. 18-2297, 18-2323, 19-1057, 19-1058, 21-1099, 21-1112, & 21-1155 (Third Cir. Ct. of Appeals); 1:19-cv-01121 (U.S.D.C., M.D. Pa.)**

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

unconstitutional insofar as it resources the entity, and requires it to comply with the budgetary process, because it restricts the use of its private funds. It ruled that it is unconstitutional as a violation of the First Amendment and procedural due process insofar as it applies the Commonwealth Attorneys Act, because it restricts JUA's choice of counsel. The Court did grant summary judgment with respect to JUA's claims against the application of the Sunshine Act, and Right-to-Know Law, holding that these provisions are constitutional as rational. All parties appealed the District Court's order on Act 15 to the Third Circuit Court of Appeals, which consolidated the three appeals. Briefing concluded in July 2021. The Third Circuit heard oral arguments on November 9, 2022. On January 19, 2023, the Third Circuit issued a Petition for Certification of Question of State Law to the Pennsylvania Supreme Court asking the following question: Under Pennsylvania law, is the Commonwealth's Joint Underwriting Association a public or private entity? The Pennsylvania Supreme Court granted the petition and certified the question. Briefing has completed. Oral argument has been scheduled for November 29, 2023.

Level 3 Communications, LLC v. Commonwealth of Pennsylvania (Pennsylvania Commonwealth Court)

Level 3 is claiming a tax refund based on its assertion that its provision of private line services is not subject to the gross receipts tax. Level 3 maintains that while the Pennsylvania Supreme Court ruled in *Verizon Pennsylvania, Inc. v. Commonwealth*, 127 A.3d 745 (Pa. 2015), that sales of private lines sold in connection with voice services are subject to the gross receipts tax, Level 3's services are factually distinguishable. Specifically, Level 3 contends that its private lines are largely sold in connection with non-voice services that are not subject to tax, such as colocation and Internet access, or are sold on a stand-alone basis. On October 13, 2023, the parties filed a stipulation of facts. The parties will exchange and file expert reports in December of 2023 and briefing will occur immediately thereafter. There are currently over 100 cases that the Commonwealth Court has stayed pending the outcome of Level 3.

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

This matter raises the same net operating loss deduction ("NOL Deduction") issue that was raised in *Nextel Communications of the Mid-Atlantic*, except that the statutory provision in RB Alden limits the deduction to \$2 million (rather than \$3 million in Nextel) and does not allow for an alternative deduction amount based on a percentage (12.5 percent) of taxable income. On June 15, 2016, a panel of the Commonwealth Court of Pennsylvania held that, in accordance with its decision in Nextel, the cap on the NOL Deduction was unconstitutional and should be eliminated in its entirety. On Exceptions, the decision was affirmed by the Commonwealth Court sitting en banc. Both decisions were handed down by the Commonwealth Court before the Pennsylvania Supreme Court decided in Nextel to sever the \$3 million flat deduction, leaving intact the deduction consisting of 12.5 percent of taxable income. The Commonwealth appealed to the Pennsylvania Supreme Court. RB Alden filed a cross appeal because Commonwealth Court rejected RB Alden's argument that the Tax Benefit Rule applied to remove all caps on the NOL Deduction. This Rule provides that recovery of a previously deducted loss is not included in taxable income to the extent that the earlier deduction did not reduce the amount of tax owed in the year the initial deduction was taken. Commonwealth Court determined that the Tax Benefit Rule, operating to remove all caps on the NOL Deduction, is contrary to the statute which expressly limited the NOL Deduction to \$2 million. On September 21, 2018, the Supreme Court vacated the Commonwealth Court's order and remanded the case to Commonwealth Court for reconsideration in light of the Supreme Court's decision in *Nextel v. Commonwealth*, 171 A.3d 682 (Pa. 2017). This matter was argued before a panel in Commonwealth Court on September 10, 2019. On November 21, 2019, the Commonwealth Court issued its opinion in 73 F.R. 2011. The parties agreed, and the Court held, that the \$2,000,000 NOL cap violated the Uniformity Clause of the Pennsylvania Constitution. The Court concluded that the NOL cap could be severed and retroactively applied that remedy. The Commonwealth filed exceptions on December 20, 2019 and, as part of those exceptions, asked that Commonwealth Court's order be deemed final. An appeal to

the Pennsylvania Supreme Court was filed on February 20, 2020. Briefing in the Pennsylvania Supreme Court was completed in September 2020, after which the appeal was held pending final disposition of *General Motors v. Commonwealth*. On February 23, 2022, the Pennsylvania Supreme Court vacated the Commonwealth Court's order, and the matter was remanded to Commonwealth Court. A stipulation for judgment was filed in Commonwealth Court on November 29, 2022 and the matter is now closed.

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

Following the *Nextel* decision, the Department of Revenue issued Corporation Tax Bulletins 2017-10 and 2018-02 to announce that the flat-dollar cap on the net loss deduction would no longer be available for tax years beginning in 2017 and thereafter. Alcatel-Lucent challenges those Bulletins and argues that the Department of Revenue has violated the uniformity, equal protection, due process, and remedies clauses in its failure to retroactively apply *Nextel* and assess taxpayers who took the flat-dollar net loss deduction beginning with the 2014 tax year. On September 13, 2021, a unanimous Commonwealth Court panel held that *Nextel* applied prospectively and denied the request for a retroactive refund. On June 22, 2022, the matter was argued on exceptions before the Commonwealth Court sitting en banc. On April 6, 2023, the Commonwealth Court granted taxpayer's exceptions to allow for retroactive relief in accordance with the *General Motors* decision. The matter was appealed to the Pennsylvania Supreme Court and the matter has been briefed, with argument still to be scheduled. Applying *Nextel* retroactively could result in tax refunds of approximately \$150 million for the 2014 – 2016 tax years and tax refunds of approximately \$208 million for the 2007 – 2013 tax years.

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

Synthes filed its tax return using the statutory method for reporting service receipts and now seeks a refund based on the Department of Revenue's historical interpretation of the statute, which sources service receipts to the customer location. Synthes argues that the Department of Revenue is violating the Uniformity Clause by unequally enforcing the statute. The Office of Attorney General argues that Synthes is required to report its sales in accordance with the statutory method, which is inconsistent with the requested methodology of sourcing to the customer location, and that the Department of Revenue has been uniform in its enforcement of the statute. Initial briefing was completed on February 4, 2020. On February 11, 2020, the Department of Revenue filed an Application to Intervene. Oral argument before the Commonwealth Court occurred on June 11, 2020. On July 24, 2020, the Commonwealth Court ruled in favor of Synthes. The Commonwealth filed exceptions to the Commonwealth Court's decision on August 24, 2020. The Commonwealth Court's July 24, 2020 order was entered as final on January 21, 2021. The Commonwealth filed an appeal to the Pennsylvania Supreme Court on February 16, 2021. Briefing in the Pennsylvania Supreme Court was completed in August 2021 and oral argument occurred on March 10, 2022. On February 22, 2023, the Pennsylvania Supreme Court issued a decision affirming the Department of Revenue's interpretation of the sourcing statute, which entitled the taxpayer to a refund. The Court remanded the matter for a refund to be calculated. The refund was issued and no further action on this matter is expected.

Pennsylvania Environmental Defense Foundation (PEDF) v. Commonwealth of Pennsylvania, Case No. 358 MD 2018 (Pennsylvania Commonwealth Court)

PEDF filed this action challenging the Commonwealth's use of funds from the Oil and Gas Lease Fund for general operating expenses of the Department of Conservation and Natural Resources, certain uses of Oil and Gas Lease Fund monies for conservation or maintenance, exercise of the commonwealth's trustee duties, and repeal of the 1955 Oil and Gas Lease Fund Act. The Commonwealth Court held the General Assembly's appropriation of rents and income from oil and gas leases was constitutional, but that the General Assembly could not appropriate royalties because they are part of the corpus of the trust. PEDF filed an appeal to the Pennsylvania Supreme Court, 65 MAP 2020, and the Court affirmed the order of the Commonwealth Court. On August 30, 2022, PEDF filed an application for relief with the Commonwealth Court, asking the Court to compel the Commonwealth to provide an accounting. The Commonwealth Court denied the Application for Relief in December 2022. Petitioner filed an Application to Amend, but the Court granted Respondent's Motion to Quash and closed the case. Notice of an appeal with the Supreme Court was filed on March 3, 2023. The appeal was quashed on October 18, 2023.

Pennsylvania Environmental Defense Foundation (PEDF) v. Commonwealth of Pennsylvania, Case No. 65 MAP 2020 (Pennsylvania Supreme Court)

PEDF filed a Petition for Review in the Nature of Declaratory Relief in the Commonwealth Court. It challenged the Department of Conservation and Natural Resources (DCNR)'s use of money from the Oil & Gas Lease Fund (OGLF) to cover DCNR's general operating costs. If PEDF is successful, DCNR's operating costs going forward will have to be accounted for by appropriation from the General Fund. In an October 20, 2020, decision, the Commonwealth Court held that (1) the use of OGLF money for DCNR's general operating costs is not unconstitutional as it is related to the trust purposes of environmental conservation and maintenance, (2) there is no requirement that oil and gas lease funds from the Marcellus Shale region be used in that region, and (3) the Commonwealth must maintain accurate records of the Lease Fund and track trust principal as part of its trustee duties. On November 3, 2021, PEDF filed an appeal with the Pennsylvania Supreme Court. On December 8, 2021, the Supreme Court heard oral argument limited to four issues: (1) Are appropriations from the OGLF in the General Appropriations Acts of 2017 and 2018 to pay for the general operations of DCNR permissible under Article I, Section 27 of the Pennsylvania Constitution (Section 27)? (2) Did the Governor and Commonwealth violate Article I, Section 25 of the Pennsylvania Constitution by using Section 27 trust assets to perform their budgetary functions under Articles III, IV and VIII of the Pennsylvania Constitution? (3) Did the Commonwealth Court err when it concluded that the OGLF may be expended on environmental conservation initiatives beyond the Marcellus Shale region? And (4) Did the Commonwealth Court err by failing to declare that Section 27 trust assets in the OGLF from the extraction and sale of State Forest oil and natural gas in northcentral Pennsylvania remain a part of the corpus of the trust comprised of the State Forest and Park public natural resources in northcentral Pennsylvania; and must be appropriated to DCNR to conserve and maintain through the science of ecosystem management? On August 5, 2022, the PA Supreme Court affirmed the Commonwealth Court's opinion. The Foundation then attempted to proceed with compelling an accounting of all OGLF money since 2009 under this action after the record was remanded to the Commonwealth Court. The Governor argued that the case was fully and finally litigated, and no issues remained for the Commonwealth Court to maintain jurisdiction. After argument in December 2022, the Commonwealth Court granted the Foundation leave to file a limited application to compel an accounting of the OGLF monies for the fiscal years at issue in this action. The Foundation proceeded to file an amended petition for review seeking an accounting of all OGLF monies from 2009 to 2022 and raising new claims. The Governor filed a motion to quash the amended petition and close the docket. The Commonwealth Court granted the Governor's motion in February 2023, and the Foundation appealed. The Governor argued that the Supreme Court should deny jurisdiction as the Commonwealth Court's order is an administrative docketing order and no issues remain in the case. The Court deferred jurisdiction and directed the parties to brief jurisdiction

and the merits of the case. The Court entered an order on October 18, 2023, finding jurisdiction to be infirm and affirming the Commonwealth Court's dismissal of the case. The case is now closed.

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

PEDF filed a petition for declaratory relief asking the Commonwealth Court to block transfers from DCNR's Oil and Gas Fund to pay for DCNR's operating expense in Fiscal Year 2019-20 budget. This case was stayed pending the court's disposition of the parties' cross-motions for summary relief in 358 MD 2018. In 358 MD 2018, the court granted in part and denied in part the cross-applications for summary relief. The court issued a memorandum opinion on October 22, 2020, granting PEDF's application for summary relief insofar as it sought a declaration that the Commonwealth is required to maintain accurate records of the Lease Fund and track trust principal as part of its trustee duties, but the court denied the application in all other respects. The court granted the Commonwealth's application for summary relief concluding that the following legislative enactments are not facially unconstitutional: Sections 104(P) and 1601 of the General Appropriation Acts of 2017 and 2018; the repeal of the 1955 Lease Fund Act; Section 1601.2-E of The Fiscal Code; and Section 1726-G of The Fiscal Code. The court also granted the Commonwealth's declaratory request that Lease Fund money, including trust principal, may be expended on environmental conservation initiatives beyond the Marcellus Shale region. However, the court denied the Commonwealth's application insofar as it sought a declaration that its current usage of the trust is wholly consistent with its Section 27 trustee responsibilities and that affirmative legislation is not necessary. PEDF appealed the court's October 22, 2020, decision in 358 MD 2018 to the Supreme Court which is docketed 65 MAP 2020 and summarized above. The Foundation has not yet motioned to proceed under this action.

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

In its fourth related petition concerning the use of the Oil and Gas Lease Funds, PEDF seeks to compel the State Treasurer to provide an accounting of all Oil and Gas Lease money from 2009-10 through present; pay approximately \$383 million into the Oil and Gas Lease Fund to correct for prior transfers to the General Fund; pay approximately \$800 million, without appropriation, into the Oil and Gas Lease Fund to redress amounts taken for DCNR's general budgetary needs; and pay approximately \$200 million, without appropriation, into the Oil and Gas Fund money to redress appropriations made to the Marcellus Legacy Fund. On September 8, 2021, the Court granted the parties' joint application to stay the case pending the Supreme Court's disposition of 65 MAP 2020. Although 65 MAP 2020 has been resolved, the parties have not yet moved to lift the stay.

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

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

William Penn School District v. Commonwealth of Pennsylvania (Pennsylvania Commonwealth Court)

The Petitioners (including School Districts, parents, and other interested parties) filed a Petition for Review in the Nature of an Action for Declaratory and Injunctive Relief in Commonwealth Court against, inter alia, the Department of Education, the Governor, and members of the General Assembly, seeking to mandate that the Respondents provide adequate funding that would result in equal opportunity for children throughout the Commonwealth to obtain an adequate education. Petitioners ask the Court to enter permanent injunctions compelling the Respondents to establish, fund, and maintain a thorough and efficient system of public education that provides all students in Pennsylvania with an equal opportunity to obtain an adequate education. This matter was previously dismissed by the Commonwealth Court, which found that it presented a nonjusticiable political question. Petitioners filed an appeal with the Pennsylvania Supreme Court, which reversed the Commonwealth Court and ordered the Commonwealth Court to address the Petitioners' claims. On February 7, 2023, the Commonwealth Court issued a ruling declaring that Pennsylvania's school funding system is unconstitutional because it deprives certain school districts of the equal protection of the law. This lawsuit is now final. The Commonwealth is considering new models for providing public funding for education, which model must then be enacted by the General Assembly.

Geness v. Commonwealth of Pennsylvania (U.S.D.C., W.D. Pa.)

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

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

In this case, claims are made against Millersville University and a dorm resident assistant under Title IX and the Due Process Clause (State created danger theory) in a case where a student at Millersville was found dead in her room. Also sued in the case is the fraternity that hosted a party that evening and individual members of the fraternity. The District Court has dismissed the due process claim, and summary judgment on the Title IX claim is currently pending. On September 5, 2019, the Court entered summary judgment in favor of the Defendants, including Millersville University. On appeal, the Third Circuit Court of Appeals recently reversed the District Court's ruling and denied a request for re-argument. The claims against the University settled in November 2022 for \$1.5 million and this matter is now closed.

Mohammadi v. Slippery Rock University (U.S.D.C., W.D. Pa.)

Former University Vice President claims a violation of the Pennsylvania Whistleblower Law based upon his termination from service at Slippery Rock University in April 2022. Plaintiff alleges that his termination was directly related to good faith reports of alleged waste and wrongdoing regarding the University's engineering program and financial reports. Plaintiff also asserts that his termination is a breach of the terms of a prior settlement agreement with the University, and that then-University President took steps to prevent implementation of the terms of the settlement agreement. If successful, total damages may exceed \$1,000,000 based upon Plaintiff's salary at the time of his termination and attorneys' fees.

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

Netflix provides video streaming service and Sirius XM provides commercial-free radio programming to customers across the country. Between January 2012 and July 2016, neither entity charged sales tax on services sold to Pennsylvania customers. The Department of Revenue audited and assessed Netflix's video services and Sirius XM's radio services as taxable premium cable or premium video programming services. Netflix was assessed sales tax of \$26.2 million and Sirius was assessed sales tax of \$45.4 million. In Sirius XM Radio, Inc., the parties agreed to a settlement whereby Sirius paid tax and interest of \$583,266.68. The Sirius appeal is now closed in Commonwealth Court. In Netflix, the parties agreed to a settlement whereby Netflix paid tax and interest of \$750,000. The Netflix appeal is now also closed in Commonwealth Court.

Siehl vs. Troopers Brant and Ermlick (U.S.D.C., W.D. Pa.)

Plaintiff was incarcerated for 25 years for the murder of his spouse. Plaintiff secured post-conviction relief based on irregularities in the handling of the evidence used to obtain Plaintiff's conviction. As a result, the conviction was vacated, and it was later determined that Plaintiff would not be retried. The claims for relief include 42 U.S.C. §1983 Malicious Prosecution, Fabrication of Evidence, Violation of *Brady vs. Maryland*. Mediation was held on September 30, 2022, and the matter settled for \$4.6 million and this matter is now closed.

Weimer vs. County of Fayette (U.S.D.C., W.D. Pa.)

Plaintiff was arrested and convicted of Criminal Homicide after a state trooper assigned to a cold case squad assisted in a local police investigation. Plaintiff was subsequently released after two key witnesses recanted their testimony. Nevertheless, Plaintiff served approximately 10 years in custody. Given the nature of the litigation, the Commonwealth's estimated exposure is expected to possibly exceed \$1,000,000. The Commonwealth filed a motion for summary judgment which was granted in part and denied in part. Another party appealed the summary judgment ruling as it pertains to such party, and the matter remains on appeal.

Anglemeyer, et al. v. Ammons, et al. (U.S.D.C., E.D. Pa.)

This is a § 1983 excessive force lawsuit brought by four of nine residents of a home that was raided by Pennsylvania State Police's ("PSP") Special Emergency Response Team pursuant to a search warrant. Each plaintiff asserts they were subjected to excessive force resulting in injury. Medical records confirm that two of the plaintiffs, including the elderly homeowner, suffered significant injuries. There are currently 19 PSP defendants. The Commonwealth's motion for summary judgment was granted and the ruling has been appealed. The Third Circuit heard oral argument in September 2023, and the Commonwealth is awaiting a decision. It is possible that total exposure (after accounting for the fact that plaintiff's attorney's fees are recoverable) may exceed \$1,000,000.

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

Plaintiff was incarcerated for 35 years for the murder of a 15-year-old victim. While Plaintiff was not charged with rape, there were allegations at the criminal trial that she was raped. In 2014, a DNA specimen collected from the victim was tested and it did not match Plaintiff. As a result, the conviction was vacated. The claims for relief include 42 U.S.C. §1983 Malicious Prosecution in violation of the Fourth and Fourteenth Amendments; 42 U.S.C. §1983 Deprivation of Liberty without Due Process of Law and

Denial of a Fair Trial by Withholding of Material Exculpatory and Impeachment Evidence; 42 U.S.C. §1983 Civil Rights Conspiracy; and 42 U.S.C. §1983 Failure to Intervene. Given the nature of the litigation and the facts that have come out during discovery, the risk of exposure is well over \$2.5 million. Fact discovery has closed except for one deposition. Near the end of fact discovery, Plaintiff made a demand of \$24 million. The parties, who had not gone through mandatory ADR at the outset of the case because there had been an active appeal ongoing, mediated the case in front of Kenneth Benson on December 23, 2021. All parties agreed to try mediation prior to expending resources on DNA expert analysis, other expert discovery, and motions for summary judgment. After several rounds of negotiation, PSP Defendants offered \$2.5 million. Plaintiff's final demand before negotiation between Plaintiff and PSP ended was \$21 million. Indiana County Defendants had not made an offer at that point. And after negotiations between PSP and Plaintiff ended, County Defendants settled for an undisclosed amount. PSP settled this claim for \$13 Million.

Greenwood Gaming and Entertainment, Inc., et al. v. Department of Revenue, et al. (Pennsylvania Commonwealth Court)

Group of Pennsylvania casinos challenge the Pennsylvania Lottery's internet instant games alleging they simulate interactive casino-style games in violation of Act 42 of 2017, which amended the Pennsylvania Race Horse Development and Gaming Act. Petitioners seek to either shut down the entire iLottery system or strip the games of certain features. If the Court grants the relief sought it could potentially result in the loss of significant revenue to the Lottery, which over time could be in the millions of dollars. Following a bench trial in October 2020, judgment was entered in favor of the Department of Revenue. On appeal, Commonwealth Court determined iLottery program was not in violation of the Gaming Act. A motion for Post-Trial Relief was denied and the matter was appealed to the Supreme Court. Oral argument was held in April 2023, and the Commonwealth awaits a decision.

Lee v. Lamas (U.S.D.C., E.D. Pa.)

Plaintiff brings a putative collective action under the Fair Labor Standards Act and class action under the Pennsylvania Minimum Wage Law alleging that Corrections Officer Trainees and Corrections Officer 1s at SCI-Chester prison were not paid for post-shift work. Specifically, Plaintiff avers that he was forced to wait at his post at the end of a shift change for the next shift's officer to arrive, and he was not paid for this time. The Court recently granted the Commonwealth's motion for summary judgment, and a Motion for Reconsideration has been filed.

LeadingAge PA, et al. v. Com. of PA, Dep't of Human Services (Pennsylvania Commonwealth Court)

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

participating in the MA Program. In August 2023, the parties executed a contingent Settlement Agreement and General Release of the Commw. Ct. lawsuit, which is contingent upon CMS approval of a proposed State Plan Amendment (“SPA”). If approved, the state share of the \$40 million has been reduced to \$17.7 million. Pursuant to the Settlement Agreement, PA-DHS published a Public Notice in the Pennsylvania Bulletin on October 7, 2023. No public comments were received. It is anticipated that the Petitioners will approve the proposed SPA in calendar year 2023, at which time it will be formally submitted to CMS for federal approval. Per 42 CFR 430.16, CMS has 90 days from the submission date to approve/reject the SPA or ask for more information. It is anticipated that the SPA will be approved by the Spring of 2024.

Brown v. Wilson (U.S.D.C., W.D. Pa.)

After investigation by Pennsylvania State Police, Plaintiff was arrested, charged and adjudicated delinquent in the murder of his stepmother when he was eleven years old. On appeal, the Superior Court affirmed the adjudication; however, the Supreme Court concluded there was insufficient evidence to support his adjudication of delinquency beyond a reasonable doubt for the offenses charged. Consequently, Plaintiff was released after spending nearly 10 years in custody. Given the nature of the litigation, the Commonwealth’s estimated exposure is likely to exceed \$1,000,000. Trial was set for February 2024 but has been continued with no new date set.

Jeff Dunn v. Dep’t of Human Services (Pennsylvania Commonwealth Court)

Petitioner filed a Petition for Review against the Department of Human Services claiming a violation of the Pennsylvania Whistleblower Law. Petitioner was the former Institutional Safety Manager at Warren State Hospital. Petitioner complained about his former supervisor’s conduct and claims it rose to the level of workplace violence. Petitioner asserts that he was terminated after making these reports; however, the agency claims that they terminated Petitioner because of his inability to complete necessary tasks. Because this is a whistleblower claim, Petitioner is entitled to reinstatement, payment of back wages, benefits, pain and suffering, attorney’s fees and costs. Petitioner claims he has mitigated his damages, but his back wages total more than \$200,000 on top of all other forms of damages. Courts are permitted to double the amount of actual damages and provide a petitioner with compensatory damages of equal value without additional evidence in a whistleblower claim. The Commonwealth filed an Application for Summary Relief in January 2023 which remains pending.

Kaufman, et al v. Pennsylvania State Police, et al. (U.S.D.C., W.D. Pa.)

Pennsylvania State Police responded to Plaintiffs’ decedent’s residence after his family called 911 because Plaintiffs’ decedent had retrieved his rifle and was threatening to shoot the neighbors. Plaintiffs’ decedent was shot and killed by the PSP SERT Team after he refused to put down the rifle that he was pointing at the Troopers. This case recently settled for \$225,000.

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

This case alleges negligence and state-created danger claims as a result of a vehicle accident involving PSP Trooper Waida. Trooper Waida was responding to a call when he collided with a passenger vehicle. Plaintiff-driver suffered injuries requiring a cervical fusion. Plaintiff is alleging that, as a result of her injuries, she can no longer work or care for herself independently. This matter was mediated by Magistrate Judge Lloret on August 15, 2022 and settled for \$1.7 million. The case is now closed.

Roberts, et al., v. State Employees' Retirement Board (Pennsylvania Commonwealth Court)

This is an original jurisdiction Commonwealth Court action filed by eight judges. Respondents are the State Employees' Retirement Board as an entity, and each of the individual Board members. Petitioners took office on or after January 1, 2019, and are subject to the benefit and contribution provisions of the Act of June 12, 2017, P.L. 11, No. 5 ("Act-5"). Act 5 established the new retirement benefit tiers for most new State employees, including judges. These new tiers are the Class A-5 and Class A-6 hybrid defined benefit/defined contribution plans and the straight defined contribution plan option. Petitioners allege that the new benefit tiers produce lower benefits than the old benefit tiers in violation of constitutional requirements for judicial pension benefits as interpreted and applied by prior Pennsylvania Supreme Court decisions. Petitioners filed an Application for Summary Relief, which was recently denied. They are now seeking an immediate appeal to the Supreme Court of Pennsylvania. If the Petitioners are ultimately successful, it could have a significant effect on the Commonwealth's budgeting and may require reallocation of funds, of an amount well over \$1 million, towards the state employee retirement system.

Hall v. Phelps, et al. (U.S.D.C., M.D. Pa.)

This is a section 1983 excessive force and First Amendment retaliation lawsuit brought by the Estate of Christian Hall. PSP responded to several calls of a suicidal male who was standing at the edge of an overpass. The troopers worked for over two hours to deescalate the situation, however, at some point Christian Hall drew his handgun, pointed it in the direction of troopers, and was shot by two of the troopers on scene. There are First Amendment claims against the former Commissioner related to statements made by PSP following the shooting. Discovery is due to be completed by spring of 2024. It is possible that total exposure may exceed \$1,000,000.

Medical Marijuana Access & Patient Safety, Inc. v. Klinepeter, et al. (Pennsylvania Commonwealth Court)

Petitioners, a collection of medical marijuana organizations and patients, initiated an action seeking declaratory judgment, a temporary injunction, and other relief following the Department of Health's request that medical marijuana grower-processors recall certain medical marijuana vaporization products. Pursuant to the Medical Marijuana Act ("Act"), the Department of Health (the "Department") is required to approve or deny medical marijuana products. These products include a wide range of different devices that aid delivery of medical marijuana. One of the more popular medical marijuana delivery devices are vaporizers. Many grower-processors sell medical marijuana in a form designed to be inhaled through the use of vaporization devices. In some cases, medical marijuana includes additives. Prior to approving vaporization products, the Department takes steps to ensure the products are safe for inhalation. To that end, the Department has relied on the Food and Drug Administration's ("FDA") list of approved additives to evaluate whether an additive in a vaporization product is safe for inhalation. Petitioners have challenged the Department's "safe for inhalation" standard as an unpromulgated regulation. Additionally, Petitioners have argued that the Act only permits the Department to deny an additive if the product does not satisfy one of two listed "considerations" in the Act. In February 2022, a hearing was held before the Commonwealth Court. In June 2022, the Court found that there was a likelihood that Petitioner would succeed on the merits. In so ruling, the Court specifically found that there was a likelihood that the Department did not have authority to use the "safe for inhalation" standard. The Department and Petitioners then filed dueling motions for summary judgment. The Court heard argument, *en banc*, in March 2023. If a permanent injunction is granted, then the Department will not have authority to prohibit unsafe additives from being used in medical marijuana products.

Green Analytics N., LLC, et al. v. Pennsylvania Dep’t of Health (Pennsylvania Supreme Court)

Petitioners, a licensed medical marijuana laboratory and six medical marijuana grower/processors, initiated this case through the filing of a petition for review with Commonwealth Court on March 4, 2023. That petition challenged one provision of a broader regulation that regulates medical marijuana issued by the Department of Health earlier that day. That provision, known as the “two-lab requirement,” required medical marijuana grower-processors to contract with two separate laboratories to have their medical marijuana tested at two different stages of production. Simultaneous with the petition, petitioners filed a motion for an *ex parte* temporary restraining order preventing the Department from enforcing the two-lab requirement, which Commonwealth Court granted. The Department then agreed to refrain from enforcing the two-lab requirement during the pendency of this litigation. The parties then moved for summary relief, and argument was held before the *en banc* court on May 10, 2023. On June 29, 2023, a divided Commonwealth Court granted Petitioners’ application for summary judgment as to Count I of their petition, which alleged that the two-lab requirement exceeded the Department’s statutory authority under the Medical Marijuana Act (“the Act”). It simultaneously denied Respondent’s application for summary judgment. The court declared the two-lab requirement invalid and unenforceable, and entered judgment in Petitioners’ favor. The majority opinion, found that the two-lab requirement exceeded the Department’s authority because it conflicted with Section 704 of the Act, which states, in relevant part: “A grower/processor shall contract with one or more independent laboratories to test the medical marijuana produced by the grower/processor.” The matter is pending before the Pennsylvania Supreme Court. If a permanent injunction is issued, or if the Court determines the regulations are not supported by the Act, then the Department will be unable to ensure that two independent labs test all medical marijuana products.

Allegheny Reproductive Health Center v. Department of Human Services (Pennsylvania Commonwealth Court)

This case concerns an equal protection challenge by numerous providers of reproductive health care services throughout Pennsylvania to the prohibition of Medical Assistance coverage for abortion services under 18 Pa. Cons. Stat. §§ 3215(c), (j). Petitioners request that the Court declare the statute and regulations unconstitutional, that abortion is a fundamental right under the Pennsylvania Constitution, and that the Court enjoin enforcement of the Pennsylvania abortion coverage ban statute and implementing regulations. The Commonwealth filed preliminary objections and challenged the Petitioners’ standing. Separate applications to intervene were filed by members of the Pennsylvania Senate and the Pennsylvania House of Representatives and were ultimately granted. The Senate and House Intervenor also filed preliminary objections. On March 26, 2021, the Commonwealth Court issued an opinion sustaining the Preliminary Objections filed by the Department of Human Services (“DHS”), as well as Intervenor from the Senate and House of Representatives, and dismissing the Petition for Review. Petitioners filed an appeal of Commonwealth Court’s order that allowed intervention and on its order that sustained preliminary objections with the Pennsylvania Supreme Court. Briefing is complete and oral argument took place on October 26, 2022. The Commonwealth awaits the ruling from the Court.

S.R. v Department of Human Services (U.S.D.C., M.D. Pa.)

This case concerns a class action filed by Disability Rights Pennsylvania, challenging the alleged failure to provide a full array of mental health services for dependent children with mental health needs. The Plaintiffs, on behalf of themselves and all children under the age of 21 who now or in the future are adjudicated dependent and have a diagnosed mental health disability, allege violations of Title XIX, the ADA, and Section 504 of the Rehabilitation Act, for failure to provide medically necessary Medical Assistance (“MA”)-funded behavioral health services with reasonable promptness; failure to provide child welfare services equal to those provided to children without mental health disabilities; and failure to provide services in-state in the most integrated setting appropriate to the needs of the Plaintiffs. The parties have

been engaged in settlement discussions for a significant period of time. In view of the amount of discovery involved in this matter and the breadth of the settlement negotiations, costs could be significant.

Derrick v. Glen Mills School, Miller, Dallas, Utz, et al. (U.S.D.C., E.D. Pa.)

This case concerns a putative class action filed by the Juvenile Law Center and the Education Law Center on behalf of former students at Glen Mills against three former Department of Human Services (“DHS”) and Pennsylvania Department of Education (“PDE”) Secretaries and a DHS Deputy Secretary in their individual capacities only, and Glen Mills executives. Plaintiffs allege DHS defendants violated their rights to be free from excessive and unreasonable use of force, to be protected from harm, and to receive adequate medical treatment. Plaintiffs claim the DHS defendants had an affirmative duty to protect them from harm and knew or should have known Glen Mills staff routinely used physical violence and excessive force against students. Plaintiffs’ settlement demand that DHS pay \$16.6 million was not accepted, and the case proceeded to discovery, which is now complete. Briefs in opposition to class certification were filed on behalf of DHS and PDE. A motion for summary judgment was filed on behalf of PDE. Once the motion for class certification is ruled upon, a motion for summary judgment will be filed on behalf of DHS. DHS and PDE are also engaged in settlement discussions with Plaintiffs.

Turton, Deceased, by U’Ren v. Southwestern Veterans’ Center (SWVC) (Allegheny County Court of Common Pleas)

In this negligence action, Plaintiff alleges the Southwestern Veteran’s Center (the “SWVC”) breached its duty to resident, Turton, by leaving drain cleaner accessible to Turton, who ingested the drain cleaner and died. Plaintiff demands \$500,000 in damages. Although the demand is under \$1,000,000, Plaintiff stated an intention to challenge the constitutionality of the \$250,000 cap on damages under 42 Pa. C.S. § 8528.

Estate of Edgar Gearhart v. Pennsylvania Department of Corrections (U.S.D.C., M.D. Pa.)

The complaint alleges that on January 28, 2023 inmate Edgar Gearhart was murdered at SCI Dallas. Plaintiff claims that the death was a direct result of a corrections officer’s gross negligence, recklessness, and deliberate indifference, which caused inmate Gearhart to suffer catastrophic injuries and to not receive immediate life-saving medical attention.

Ronnie Johnson, et al., v. Little, et al. (U.S.D.C., W.D. Pa.)

Plaintiffs are a class of inmates who are or were incarcerated at SCI Fayette in the Security Threat Group Management Unit (“STGMU”). They are alleging that they suffer from serious mental illness and were confined in long-term segregation despite that diagnosis. They alleged they were living under horrific/harsh conditions, denied adequate mental health care, were mistreated and retaliated against.

Anthony Reid, et al. v. Wetzel, et al. (U.S.D.C., M.D. Pa.)

Plaintiffs make up a class action of current capital case inmates. This case settled and attorneys’ fees were already paid out in excess of the \$250,000 cap set by the Commonwealth’s Employee Liability Self-Insurance Program. The settlement agreement has already led to an additional \$240,000 in attorneys’ fees above the \$507,500 fees that were paid at the conclusion of the settlement in 2020. As a result of the settlement agreement, fees will exceed \$1,000,000 as additional attorneys’ fees, monitoring fees, and fees for the mental health evaluations will be incurred.

***Fernando Nunez v. Wolf, et al.* (U.S. Court of Appeals for the Third Circuit)**

Plaintiff sought three religious accommodations: (1) conjugal visits, (2) private prayer with his family, and (3) circumcision. The Commonwealth prevailed before the United States District Court. The Third Circuit recently heard oral argument. The case could be remanded for further development or could be sent to trial. While this case will not lead to a large financial verdict, it has the possibility of significant policy implications.

***Estate of Dominic Ingle v. Wetzel, et al.* (U.S.D.C., M.D. Pa.)**

After arriving from a mental health commitment, Dominic Ingle committed suicide at SCI Camp Hill in December of 2019. The initial demand by Plaintiff's counsel is in the \$5,000,000 range.

***Astou Diop, Tanyita Henry and Awa Gaye v. State Board of Cosmetology* (Pennsylvania Commonwealth Court)**

Petitioners challenge licensure requirements for natural hair braiders as a violation of their right to pursue their chosen occupation under Article 1, Section 1 of the Pennsylvania Constitution. They also claim a violation of equal protection as cosmetologists are authorized to perform natural hair braiding but are not required to undergo natural hair braiding training. They seek a declaratory judgment that the regulatory scheme for natural hair braiding licensure violates substantive due process. They also seek an order enjoining the Board from enforcing the hair braiding licensure provisions against the petitioners or anyone else. On March 3, 2022, the Commonwealth Court ruled that the requirement in the Cosmetology Law requiring a natural hair braider license is not facially unconstitutional and does not violate the Equal Protection clause because licensed cosmetologists and unlicensed natural hair braiders are not similarly situated. However, the court determined that the "as applied" substantive due process claims of Diop and Gaye as experienced natural hair braiders operating their businesses for profit would go forward. The Commonwealth's Response to Summary Judgment is due in December 2023.

***Stilp v. Trump* (U.S.D.C., M.D. Pa.)**

On September 19, 2023, Harrisburg activist Gene Stilp amended a previously filed *pro se* lawsuit filed against Donald Trump to add the Secretary of the Commonwealth as a Defendant. Stilp seeks a Declaratory Judgment that Trump must be disqualified from the ballot pursuant to Section 3 of the Fourteenth Amendment of the United States Constitution.

***John Anthony Castro v. Schmidt, et al.* (Pennsylvania Commonwealth Court)**

On August 30, 2023, Castro a Republican candidate claiming to be running for the 2024 presidential election, filed this complaint seeking an injunction on the basis that Donald Trump is unable to pursue or hold any public office in the United States based on his conduct following the 2020 general election under Section 3 of the 14th Amendment of the U.S. Constitution. Plaintiff demands an injunction to prevent the Secretary of the Commonwealth from accepting and/or processing Mr. Trump's ballot access documentation, including but not limited to nomination papers and nominating petitions. Castro's case remains pending in Commonwealth Court. The Pennsylvania Supreme Court denied his application for extraordinary jurisdiction.

***Heath Gray v. Pennsylvania Dept. of State* (Pennsylvania Commonwealth Court)**

On September 25, 2023, Petitioner filed a Petition for Review claiming that he, as an incarcerated felon, is being unconstitutionally deprived of his right to vote. He requested a voter registration form from

prison staff at SCI-Greene and prison staff denied that request based on DOS guidance regarding prisoners with felony convictions. Petitioner seeks an order that DOS be required to facilitate the right of suffrage for confined felons. The Department filed a response on October 27, 2023.

Pennsylvania State Conference of the NAACP et al. v. Schmidt et al. (U.S.D.C., W.D. Pa.)

On November 4, 2022, the American Civil Liberties Union (the “ACLU”), on behalf of various public interest groups including the National Association for the Advancement of Colored People (the “NAACP”) and the League of Women Voters filed suit in federal court for the Western District of Pennsylvania against the Secretary and all 67 county Board of Elections claiming that the refusal to count ballots enclosed in outer envelopes that are undated or wrongly dated mail-in and absentee ballots violates the materiality provision of the Civil Rights Act. The suit outlines the history of litigation in Pennsylvania state and federal courts on this issue. Plaintiffs assert one count that such refusal is a violation of the materiality provision of the Civil Rights Act and seek a declaration and injunctive relief. On November 21, 2023, the district court held that excluding undated ballots violates the materiality provisions of the Civil Rights Act. An appeal to the Third Circuit is likely.

County of Fulton, et al. v. Degraffenreid, et al. (Pennsylvania Commonwealth Court)

On August 18, 2021, Fulton County sued the Secretary of the Commonwealth over the decision to decertify certain of Fulton County’s voting system components which were turned over to third parties as part of an “audit.” Petitioners thereafter filed an amended petition for review on September 17, 2021. The Secretary filed preliminary objections on Count II, which were ultimately overruled. The Secretary filed an answer on June 22, 2022. The case is currently before the Pennsylvania Supreme Court, No. 3 MAP 2022, on the Secretary’s emergency application related to spoliation of evidence. The Pennsylvania Supreme Court issued an opinion holding Fulton in contempt and granting nearly all relief sought in the sanctions application. The Pennsylvania Supreme Court ordered Fulton to pay all of the Secretary’s costs and fees from December 17, 2021, and ordered the voting systems to be impounded and kept by a third party at the county’s expense.

Batuhan Dogrusoz v. PA Department of Labor and Industry, Unemployment Compensation Board of Review (UCBR) (Pennsylvania Commonwealth Court)

Dogrusoz filed a complaint in mandamus to the Commonwealth Court requesting, among other things, an award for Pandemic Unemployment Assistance (PUA) benefits for a period of time not previously requested and an award of those benefits without an offset for any earnings. Though Commonwealth Court lacks original jurisdiction in this matter, and it is unlikely Dogrusoz will be successful, if the Court entertains petitioner’s arguments, it would significantly alter the method by which individuals submit claims for unemployment benefits. The Department of Labor and Industry filed preliminary objections on October 3, 2023 and awaits the court’s ruling.

Ursinus College v. International Brotherhood of Electrical Workers, Local Union No. 98 (Pennsylvania Supreme Court)

The primary issue in this matter is whether the Pennsylvania Prevailing Wage Act, 43 P.S. §§ 165-1-165-17 (“PWA”), applies to a construction project at Ursinus College funded by issuance of municipal bonds to a private trustee. The Commonwealth Court held that because the project funding never touched “public coffers” the PWA did not apply. This decision could have significant implications on the application of the PWA as it could narrow the interpretation of “public work.” The Department of Labor & Industry intervened in the Commonwealth Court proceeding but did not file a brief in the Supreme Court proceeding.

The briefing was completed on May 22, 2023, and the case was subsequently argued on September 14, 2023.

PSP NE, LLC v. Prevailing Wage Appeal Board (Pennsylvania Supreme Court)

The primary issue in this matter is whether the Pennsylvania Prevailing Wage Act, 43 P.S. §§ 165-1-165-17 (PWA), applies to the construction of a new Pennsylvania State Police barracks in which a public entity bears the financial risk of construction pursuant to a long-term pre-development lease. The Commonwealth Court held that, because the construction costs were not provided by a public body, the risk of repayment was not borne by a public body, and the developer retained a reversionary interest in the property, a bona fide lease existed, rather than construction contract. Accordingly, the PWA did not apply. This decision could also have significant implications on the application of the PWA. On October 30, 2023, the Supreme Court issued an Order holding the Petition for Review filed by Bureau of Labor Law Compliance pending the outcome the Ursinus College case described above.

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APPENDIX C

SELECTED DATA ON THE COMMONWEALTH

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SELECTED DATA ON THE COMMONWEALTH OF PENNSYLVANIA

General

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

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

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

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

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

Population

The Commonwealth is highly urbanized. The largest Metropolitan Statistical Areas ("MSAs") in the Commonwealth are those that include the cities of Philadelphia and Pittsburgh, which together contain the majority of the state's total population. The population of Pennsylvania, 12.9 million people in calendar year 2022 (all references below are to calendar years), according to the U.S. Bureau of the Census, represents a population growing slower than the nation with a higher portion than the nation or the Middle Atlantic region comprised of persons 45 or over. The following tables (on the next page) present the population trend from 2018 to 2022 and the age distribution of the population for 2022.

Population Trends
Pennsylvania, Middle Atlantic Region, and the United States
2018-2022

As of July 1	Total Population (In Thousands)			Total Population as a % of 2018 base		
	PA	Middle Atlantic Region ^a	United States	PA	Middle Atlantic Region ^a	United States
2018.....	12,801	41,217	326,688	100.0%	100.0%	100.0%
2019.....	12,802	41,138	328,240	100.0%	99.8%	100.5%
2020.....	12,783	41,002	329,484	99.9%	99.5%	100.9%
2021.....	12,964	42,067	331,894	101.3%	102.1%	101.6%
2022.....	12,972	41,911	333,288	101.3%	101.7%	102.0%

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

Population by Age Group - 2021
Pennsylvania, Middle Atlantic Region, and the United States

Age	PA	Middle Atlantic Region ^a	United States
Under 5 Years.....	5.2%	5.4%	5.6%
5 -24 Years.....	24.1%	24.1%	25.6%
25-44 Years.....	25.5%	26.3%	26.8%
45-64 years.....	26.1%	26.3%	25.2%
65 years and over.....	19.0%	17.8%	16.8%

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

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Employment

Non-agricultural employment in Pennsylvania increased in 2018 and 2019 before decreasing in 2020. Non-agricultural employment then increased in 2021 and 2022 throughout the Middle Atlantic Region and the entire United States. The following table shows employment trends from 2018 through 2022 in these areas.

Non-Agricultural Establishment Employment Trends Pennsylvania, Middle Atlantic Region and the United States 2018-2022

Calendar Year	Total Establishment Employment (thousands)			Total Establishment Employment as a % of 2018 base		
	PA	Middle Atlantic Region ^a	U.S.	PA	Middle Atlantic Region ^a	U.S.
2018.....	6,010	19,855	148,893	100.0%	100.0%	100.0%
2019.....	6,065	20,058	150,900	100.9%	101.0%	101.3%
2020.....	5,619	18,287	142,252	93.5%	92.1%	95.5%
2021.....	5,751	18,820	146,102	95.7%	94.8%	98.1%
2022.....	5,991	19,764	152,625	99.7%	99.5%	102.5%

^aMiddle Atlantic Region: Pennsylvania, New York and New Jersey

As shown below, manufacturing employment in Pennsylvania has increased in 2022 and reached 91 percent of total non-agricultural employment. Consequently, manufacturing employment constitutes a diminished share of total employment within the Commonwealth. Manufacturing, contributing 9 percent of 2022 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 2022, the services sector accounted for 50 percent of all non-agricultural employment while the trade sector accounted for 14 percent. The following table shows trends in employment by sector for Pennsylvania from 2018 through 2022.

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Non-Agricultural Establishment Employment by Sector
Pennsylvania
2018-2022
(In Thousands)

	Calendar Year									
	2018		2019		2020		2021		2022	
	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
Manufacturing:										
Durable.....	343.0	6%	345.4	6%	319.0	6%	319.9	6%	332.6	6%
Non-Durable.....	227.9	4%	229.3	4%	218.6	4%	222.5	4%	231.1	4%
Total Manufacturing.	570.9	9%	574.7	9%	537.6	10%	542.3	9%	563.6	9%
Non-Manufacturing:										
Trade ^a	836.2	14%	826.7	14%	769.1	14%	796.4	14%	812.4	14%
Finance ^b	325.9	5%	330.8	5%	325.3	6%	327.0	6%	334.5	6%
Services ^c	2,998.8	50%	3,037.2	50%	2,728.3	49%	2,823.6	49%	2,987.3	50%
Government.....	703.1	12%	706.7	12%	685.0	12%	675.9	12%	678.3	11%
Utilities.....	290.7	5%	300.2	5%	294.9	5%	310.3	5%	332.9	6%
Construction.....	255.8	4%	261.1	4%	241.1	4%	253.2	4%	259.1	4%
Mining.....	28.7	0%	28.9	0%	23.0	0%	21.8	0%	22.4	0%
Total Non-Manufacturing.....	5,439.1	91%	5,491.5	91%	5,066.9	90%	5,208.2	91%	5,426.9	91%
Total Employees^{d,e}.....	6,010.0	100%	6,066.2	100%	5,604.4	100%	5,750.6	100%	5,990.5	100%

^aWholesale Trade

^bFinance, insurance and real estate

^cIncludes transportation, communications, electric, gas and sanitary services

^dDiscrepancies due to rounding

^eDoes not include workers involved in labor-management disputes

Source: US Bureau of Labor and Statistics

The following table presents the percentages of non-agricultural employment in various sectors in Pennsylvania and the United States in 2022.

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

	2022 Calendar Year	
	Pennsylvania	United States
Manufacturing.....	9.4%	8.4%
Trade ^a	13.6	14.1
Finance ^b	5.6	5.9
Services.....	49.9	46.9
Government.....	11.3	14.5
Utilities ^c	5.6	4.4
Construction.....	4.3	5.1
Mining.....	0.4	0.4
Total.....	100.0%	100.0%

^aWholesale and retail trade.

^bFinance, insurance and real estate.

^cIncludes transportation, communications, electric, gas and sanitary services.

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

Within the manufacturing sector of Pennsylvania's economy, which now accounts for about one-tenth of total non-agricultural employment in Pennsylvania, the fabricated metals industries employed the largest

number of workers. Employment in the fabricated metals industries is 13.6 percent of Pennsylvania manufacturing employment but only 1.4 percent of total Pennsylvania non-agricultural employment in 2022. The following table shows trends in manufacturing employment by industry for Pennsylvania from 2018 through 2022.

Manufacturing Establishment Employment by Industry
Pennsylvania
2018-2022
(In Thousands)

	Calendar Year									
	2018	%	2019	%	2020	%	2021	%	2022	%
Durable Goods:										
Primary Metals.....	35.7	6.3	35.9	6.2	32.0	5.9	30.9	5.7	30.9	5.5
Fabricated Metals.....	82.4	14.4	82.9	14.4	76.6	14.3	76.4	14.1	76.4	13.6
Machinery (excluding electrical).....	45.7	8.0	46.2	8.0	42.8	8.0	42.4	7.8	42.4	7.5
Electrical Equipment.....	26.9	4.7	27.2	4.7	25.7	4.8	25.4	4.7	25.4	4.5
Transportation Equipment.....	37.5	6.6	38.7	6.7	34.6	6.4	35.4	6.5	35.4	6.3
Furniture Related Products.....	16.3	2.9	15.8	2.7	14.2	2.6	15.0	2.8	15.0	2.7
Other Durable Goods.....	98.5	17.2	98.7	17.2	93.2	17.3	94.5	17.4	107.2	19.0
Total Durable Goods.....	343.0	60.1	345.4	60.1	319.0	59.3	319.9	59.0	332.6	59.0
Non-Durable Goods:										
Pharmaceutical/ Medicine.....	18.3	3.2	19.0	3.3	19.6	3.7	20.5	3.8	20.5	3.6
Food Products.....	73.0	12.8	73.5	12.8	71.3	13.3	73.2	13.5	73.2	13.0
Chemical Products.....	41.1	7.2	42.4	7.4	42.2	7.9	43.6	8.0	43.6	7.7
Printing and Publishing.....	23.1	4.0	22.4	3.9	19.5	3.6	18.6	3.4	18.6	3.3
Plastics/Rubber Products.....	40.2	7.0	40.5	7.0	38.8	7.2	39.7	7.3	39.7	7.0
Other Non-Durable Goods.....	32.4	5.7	31.6	5.5	27.1	5.0	26.9	5.0	35.5	6.3
Total Non-Durable Goods.....	227.9	39.9	229.3	39.9	218.6	40.7	222.5	41.0	231.1	41.0
Total Manufacturing Employees^a.....	570.9	100.0	574.7	100.0	537.6	100.0	542.3	100.0	563.6	100.0

^aDiscrepancies due to rounding. Source: U.S. Department of Labor, Bureau of Labor Statistics

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

**Commonwealth of Pennsylvania
Thirty Largest Non-Governmental Employers
4th Quarter, 2022**

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

Unemployment

During 2022, Pennsylvania had an annual unemployment rate of 4.4 percent. This represents a small increase from 2018 when the unemployment rate was 4.2 percent. The following table represents the annual unemployment rate in Pennsylvania, the Middle Atlantic Region, and the United States from 2018 through 2022.

**Annual Average Unemployment Rate
Pennsylvania, Middle Atlantic Region and the United States
2018-2022**

Calendar Year	PA	Middle Atlantic Region ^a	United States
2018.....	4.2	4.2	3.9
2019.....	4.4	4.0	3.7
2020.....	9.1	9.7	8.1
2021.....	6.3	6.6	5.3
2022.....	4.4	4.2	3.6

^aMiddle Atlantic Region: Pennsylvania, New York, New Jersey. Source: U.S. Department of Labor, Bureau of Labor Statistics (BLS).

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Personal Income

Personal income in the Commonwealth for 2022 was \$845.3 billion, an increase of 2.0 percent over the previous year. During the same period, national personal income increased by 4.0 percent. Based on the 2022 personal income statistics, per capita income was at \$65,167.0 in the Commonwealth compared to per capita income in the United States of \$65,423.0. The following tables represent annual personal income data and per capita income from 2018 through 2022.

Personal Income Pennsylvania, Mideast Region and the United States 2018-2022

Year	Total Personal Income Dollars in Millions			Total Personal Income As a % of 2018 Base		
	PA	Mideast Region ^a		PA	Mideast Region ^a	
		U.S. ^b	U.S. ^b		U.S. ^b	U.S. ^b
2018.....	717,255	3,147,619	17,839,255	100%	100%	100%
2019.....	737,161	3,208,874	18,402,004	103%	102%	103%
2020.....	788,725	3,402,858	19,607,447	110%	108%	110%
2021.....	830,397	3,590,523	21,056,622	116%	114%	118%
2022.....	845,347	3,674,350	21,804,788	118%	117%	122%

^aMideast Region: Pennsylvania, New York, New Jersey, Maryland, District of Columbia, and Delaware

^bSum of States

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

Per Capita Income Pennsylvania, Mideast Region and the United States 2018-2022

Calendar Year	Per Capita Income			As a % of U.S.	
	PA	Mideast Region ^a	U.S.	PA	Mideast Region ^a
2018.....	51,500.0	65,341.0	54,606.0	94%	120%
2019.....	58,032.0	67,622.0	56,490.0	103%	120%
2020.....	61,700.0	70,459.0	59,510.0	104%	118%
2021.....	64,054.0	73,402.5	63,444.0	101%	116%
2022.....	65,167.0	75,133.5	65,423.0	100%	115%

^aMideast Region: Average of Pennsylvania, New York, New Jersey, Maryland, District of Columbia, and Delaware. Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The Commonwealth's average hourly wage rate of \$30.55 for manufacturing and production workers is below the national average of \$30.98 for 2022. The following table presents the average hourly wage rates for 2018 through 2022.

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**Average Hourly Wages
Production Workers on Manufacturing Payrolls
Pennsylvania and the United States
2018-2022**

Calendar Year	PA	U.S.
2018.....	\$ 25.74	\$ 27.05
2019.....	\$ 26.23	\$ 27.70
2020.....	\$ 27.65	\$ 28.77
2021.....	\$ 28.82	\$ 29.69
2022.....	\$ 30.55	\$ 30.98

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

Market and Assessed Valuation of Real Property

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

The table below shows the assessed valuation as determined and certified by the counties and the market value and the assessed to market value ratio determined by the STEB for real property from 2018-2022. In computing the market values for uneven-numbered years, the STEB is statutorily restricted to certifying only those changes in market value that result from properties added to or removed from the assessment rolls. The STEB is permitted to adjust the market valuation to reflect any change in real estate values or other economic change in value only in even-numbered years.

**Valuations of Taxable Real Property
2018-2022**

Year	Market Value ^a	Assessed Valuation	Rate of Assessed Valuation to Market Value ^a
2018.....	877,385,372,915	642,305,663,711	73.2%
2019.....	922,018,498,396	677,415,063,122	73.5%
2020.....	966,037,072,558	696,790,394,130	72.1%
2021.....	975,443,133,973	729,487,795,164	74.8%
2022.....	1,057,970,532,347	735,677,350,066	69.5%

^aMarket Value difference between Regular Assessment and Preferential Assessment under Act 319 of 1974.

Source: Annual Certifications by the State Tax Equalization Board.

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APPENDIX D

INFORMATION REGARDING THE DEPOSITORY TRUST COMPANY

DTC will act as securities depository for the Bonds. The Bonds will be initially issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount thereof, 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 an S&P 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 and www.dtc.org.

Purchases of the 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. Beneficial Owners are, however, 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 the 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 may be 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.

Redemption notices shall be sent to DTC. If less than all the Bonds of a series 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 any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commonwealth or the Loan and Transfer Agent, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by 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 Participant and not of DTC, the Loan and Transfer Agent, or the Commonwealth, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commonwealth or the Loan and Transfer Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as 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 depository is not obtained, bond certificates are required to be printed and delivered.

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

THE COMMONWEALTH AND THE LOAN AND TRANSFER AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE ACCURACY OF THE RECORDS OF DTC, ITS NOMINEE OR ANY DTC PARTICIPANT WITH RESPECT TO ANY OWNERSHIP INTEREST IN THE BONDS, OR PAYMENTS TO, OR THE PROVIDING OF NOTICE FOR, DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commonwealth believes to be reliable, but the Commonwealth takes no responsibility for the completeness or accuracy thereof, or the absence of materially adverse changes in such information subsequent to the date hereof. For further information, Beneficial Owners should contact DTC in New York, New York.

APPENDIX E

SELECTED CONSTITUTIONAL PROVISIONS
RELATING TO THE FINANCES OF THE COMMONWEALTH

**SELECTED
CONSTITUTIONAL PROVISIONS
RELATING TO THE FINANCES
OF THE COMMONWEALTH**

Article VIII — TAXATION AND FINANCE

Commonwealth Indebtedness

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

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

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

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

(d) If sufficient funds are not appropriated for the timely payment of the interest upon and installments of principal of all debt, the State Treasurer shall set apart from the first revenues thereafter received applicable to the appropriate fund a sum sufficient to pay such interest and installments of

principal, and shall so apply the money so set apart. The State Treasurer may be required to set aside and apply such revenues at the suit of any holder of Commonwealth obligations.

Commonwealth Credit Not to be Pledged

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

Municipal Debt Not to be Assumed by Commonwealth

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

Audit

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

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

Gasoline Taxes and Motor License Fees Restricted

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

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

Governor's Budgets and Financial Plan

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

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

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

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

- (i) Projected operating expenditures classified by department or agency and by program, in reasonable detail, and estimated revenues, by major categories, from existing and additional sources; and
- (ii) Projected expenditures for capital projects specifically itemized by purpose, and the proposed sources of financing each.

Appropriations

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

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

Surplus

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

Project "70"

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

Land and Water Conservation and Reclamation Fund

Section 16. In addition to the purposes stated in article eight, section seven of this Constitution, the Commonwealth may be authorized by law to create debt and issue bonds in the amount of five hundred million dollars (\$500,000,000) for a Land and Water Conservation and Reclamation Fund to be used for the conservation and reclamation of land and water resources of the Commonwealth, including the elimination of acid mine drainage, sewage, and other pollution from the streams of the Commonwealth, the provision of State financial assistance to political subdivisions and municipal authorities of the

Commonwealth of Pennsylvania for the construction of sewage treatment plants, the restoration of abandoned strip-mined areas, the control and extinguishment of surface and underground mine fires, the alleviation and prevention of subsidence resulting from mining operations, and the acquisition of additional lands and the reclamation and development of park and recreational lands acquired pursuant to the authority of Article VIII, section 15 of this Constitution, subject to such conditions and liabilities as the General Assembly may prescribe.

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

December __, 2023

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

Re: Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2023 and
Commonwealth of Pennsylvania General Obligation Bonds, First Refunding Series of 2023

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 \$_____ aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2023 (the “First Series Bonds”) and \$_____ aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Refunding Series of 2023 (the “First Refunding Series Bonds” and together with the First Series Bonds, the “Bonds”). The Bonds are dated the date of issuance and delivery. The Bonds are issued as fully registered bonds without coupons in the denomination of \$5,000 or any integral multiple thereof within a maturity and will bear interest from the date of issuance and delivery, payable semi-annually on March 1 and September 1 of each year commencing March 1, 2024, until the obligation with respect to the payment of such principal shall have been discharged.

The Bonds are authorized and issued pursuant to and in full compliance with the provisions, restrictions and limitations of Section 7 of Article VIII of the Constitution of the Commonwealth of Pennsylvania (the “Constitution”); the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1999-1, approved February 9, 1999, as amended, annual capital budget bills and various bond authorization bills enacted by the General Assembly. The Bonds are also authorized and issued pursuant to resolutions adopted by the Governor, the State Treasurer and the Auditor General (the “Issuing Officials”) on November 27, 2023 and December __, 2023 (collectively, the “Resolutions”).

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

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

I am of the opinion that:

1. Section 7 of Article VIII of the Constitution has been duly approved and adopted and has become part of the Constitution, and the statutes referred to above have been duly and properly enacted.
2. Pursuant to full and adequate legal power conferred upon them by the Constitution and the statutes referred to above, the Governor, the State Treasurer and the Auditor General have duly adopted the Resolutions and have validly taken all other necessary and proper

action to issue and sell the Bonds, and the Bonds have been validly authorized, issued and sold pursuant to proper and appropriate action of such officials.

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

4. Under the provisions of Section 2901 of the Tax Reform Code of 1971, as amended, the Bonds and the interest thereon are exempt from taxation for state and local purposes within the Commonwealth, but this exemption does not extend to (a) gift, estate, succession or inheritance taxes or (b) any other taxes not levied or assessed directly on the Bonds or the interest thereon.

5. The Commonwealth has the power to provide for the payment of the principal of and interest on the Bonds (as defined above) by levying unlimited ad valorem taxes upon all taxable property within the Commonwealth and excise taxes upon all taxable transactions within the Commonwealth, uniform on the same class of subjects, except gasoline and other motor fuel excise taxes, motor vehicle registration fees and license taxes, and operators' license fees and other excise taxes imposed on products used in motor transportation, and aviation fuel excise taxes, the proceeds of which are limited to certain special purposes by Section 11 of Article VIII of the Constitution.

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

Very truly yours,

Michelle Henry
Attorney General
Office of Attorney General of the
Commonwealth of Pennsylvania

APPENDIX G

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

APPENDIX G
PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[December ____], 2023

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

[Purchaser]

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

RE: \$[_____] Commonwealth of Pennsylvania General Obligation Bonds,
 First Series of 2023
 \$[_____] Commonwealth of Pennsylvania General Obligation Bonds,
 First Refunding Series of 2023

Ladies and Gentlemen:

We have served as Co-Bond Counsel to the Commonwealth of Pennsylvania (the “Commonwealth”) in connection with the issuance of its \$[_____] General Obligation Bonds, First Series of 2023 (the “First Series Bonds”) and its \$[_____] General Obligation Bonds, First Refunding Series of 2023 (the “First Refunding Series Bonds,” and together with the First Series Bonds, the “Bonds”). The Bonds are issued under and pursuant to (i) Section 7 of Article VIII of the Constitution of the Commonwealth, (ii) the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1991-1 (the “Constitution”), approved February 9, 1999, as amended (the “Act”), and annual capital budget bills and various bond authorization bills enacted by the General Assembly, as amended, and (iii) bond resolutions adopted by the Governor, State Treasurer and Auditor General of the Commonwealth (collectively, the “Issuing Officials”) on November 27, 2023 and [December ____], 2023 (collectively, the “Resolutions”). Capitalized terms used but not otherwise defined herein have the meanings set forth in the Resolutions.

The Bonds are being issued by the Commonwealth to provide funds (i) to finance various capital projects as detailed in the Resolutions; (ii) to refund on a current basis all or a portion of the following Commonwealth of Pennsylvania General Obligation Bonds: First New Money Series of 2013 and Second Series of 2013 (the “Refunded Bonds”); and (iii) to pay all or a portion of the costs of issuance for the Bonds.

In our capacity as Co-Bond Counsel, we have examined and relied on the proceedings relating to the authorization and issuance of the Bonds, including, among other things: (i) the Constitution, the Act and certain of the annual capital budget bills and bond authorization bills referenced above; (ii) certified copies of the Resolutions; (iii) an opinion of the Office of the Attorney General of the Commonwealth dated [December ____], 2023; (iv) certificates executed by the Commonwealth and its Loan and Transfer Agent for the Bonds as to the execution and authentication of the Bonds; (v) the verification report prepared by

[_____], certifying among other things that proceeds of the First Refunding Series Bonds in the amount of \$[_____] (the “Refunding Proceeds”), together with investment earnings thereon, to be deposited with the State Treasurer of the Commonwealth and applied solely to the maturity or redemption of the Refunded Bonds, shall be sufficient to provide for the payment of principal of and interest on the Refunded Bonds as described in such report; (vi) 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; (vii) various other certificates executed by the Commonwealth, including a Non-Arbitrage Certificate dated the date of issuance of the Bonds (the “Tax Certificate”), pursuant to which the Commonwealth has, among other things, covenanted that it will make no use of the proceeds of the Bonds that would cause the Bonds to be “arbitrage bonds” or “private activity bonds,” as those terms are defined in the Internal Revenue Code of 1986, as amended (the “Code”), and the applicable regulations thereunder, and that it will comply with the applicable requirements of Sections 103 and 141 through 150 of the Code and the applicable regulations thereunder throughout the term of the Bonds; and (vii) a completed and executed Form 8038-G of the Commonwealth with respect to the Bonds to be filed with the Internal Revenue Service.

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

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

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

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

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

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

the laws of the Commonwealth enacted and construed on the date hereof, any profits, gains, or income derived from the sale, exchange or other disposition of the Bonds will be subject to taxes of the Commonwealth and local taxes within the Commonwealth.

5. Interest on the Bonds (including original issue discount) is excludable from gross income under existing laws as enacted and construed on the date hereof. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. However, interest on the Bonds is taken into account in determining annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the federal alternative minimum tax imposed on such corporations for tax years beginning after December 21, 2022. The opinions set forth in the preceding sentences are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with all such requirements. Our opinion assumes compliance with such covenants, and we do not undertake to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date hereof may affect the tax status of interest on the Bonds. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

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

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

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

This is only an opinion letter and is not a warranty or guaranty of the matters discussed above. This opinion letter is limited to the matters expressly stated herein. This opinion letter is subject to future changes in applicable law, and we do not undertake any obligation to update any of the opinions expressed in this letter. No opinion may be inferred or implied beyond the matters expressly stated herein, and our opinions expressed herein must be read in conjunction with the assumptions, limitations, exceptions and qualifications set forth herein. The law covered by the opinions expressed herein is limited to the laws of the Commonwealth and the federal law of the United States of America. Our engagement as Co-Bond Counsel concludes with the issuance of the Bonds.

Very Truly Yours,

APPENDIX H

FORM OF CONTINUING DISCLOSURE AGREEMENT

CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT dated December __, 2023 (the “Agreement”), is executed and delivered by the Commonwealth of Pennsylvania (“Commonwealth”) in connection with the issuance and delivery of Commonwealth of Pennsylvania General Obligation Bonds, \$1,335,000,000* First Series of 2023 (the “First Series Bonds”) and \$772,775,000* First Refunding Series of 2023 (the “First Refunding Series Bonds” and together with the First Series Bonds, the “Bonds”).

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

The Commonwealth hereby covenants and agrees as follows:

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

Section 2. Annual Disclosure.

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

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

(ii) Unless included in such financial statements, operating data with respect to the Commonwealth and its operations of the type found in the following tables in APPENDIX B to the Official Statement for the Bonds dated December __, 2023: (a) Tables 5 through 10 under the heading “COMMONWEALTH FINANCIAL PERFORMANCE”; (b) Tables 11 and 12 under the heading “COMMONWEALTH REVENUES AND EXPENDITURES”; (c) Tables 15 through 18 under the heading “OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH”; and (d) Tables 20 through 24 under the heading “OTHER STATE RELATED OBLIGATIONS”. If any of the tables listed above reflect information that is no longer calculated and available or relevant because of changes in operations, the Commonwealth will provide notice of such change in the first annual filing of annual operating data after such changes are undertaken. The format of such information may be altered from that set forth in the Official Statement.

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

(b) The Commonwealth shall provide annually the financial information and operating data described in subsection (a) above (collectively, the “Annual Disclosure”) within 240 days after the end

* Preliminary, subject to change.

of the Commonwealth's fiscal year, commencing with the Commonwealth's fiscal year ending June 30, 2023, to the Municipal Securities Rulemaking Board (the "MSRB") via the Electronic Municipal Market Access system, or any successor thereto ("EMMA").

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

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

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

(a) Principal and interest payment delinquencies;

(b) Non-payment related defaults, if material;

(c) Unscheduled draws on debt service reserves reflecting financial difficulties;

(d) Unscheduled draws on credit enhancements reflecting financial difficulties;

(e) Substitution of credit or liquidity providers, or their failure to perform;

(f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(g) Modifications to rights of holders of the Bonds, if material;

(h) Bond calls, if material, and tender offers;

(i) Defeasances;

(j) Release, substitution, or sale of property securing repayment of the Bonds, if material;

(k) Rating changes;

(l) Bankruptcy, insolvency, receivership or similar event of the Commonwealth;

(m) The consummation of a merger, consolidation, or acquisition involving the Commonwealth or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(n) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

(o) Incurrence of a financial obligation of the Commonwealth, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Commonwealth, any of which affect security holders, if material; and

(p) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the Commonwealth, any of which reflect financial difficulties.

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

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

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

Section 6. Defaults.

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

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

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

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

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

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

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

[Remainder of page intentionally left blank]

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

COMMONWEALTH OF PENNSYLVANIA

By: _____
Name:
Title:

APPENDIX I

NOTICE OF SALE

**APPENDIX I
NOTICE OF SALE**

\$2,107,775,000*
Commonwealth of Pennsylvania
General Obligation Bonds,
\$1,335,000,000* First Series of 2023 and
\$772,775,000* First Refunding Series of 2023

Electronic bids will be received on December 6, 2023* (the “Bid Date”), by the Commonwealth of Pennsylvania (“Commonwealth”), at the time and in the manner described below, for the purchase of the \$2,107,775,000* Commonwealth of Pennsylvania General Obligation Bonds, consisting of \$1,335,000,000* First Series of 2023 (the “First Series Bonds”) and \$772,775,000* First Refunding Series of 2023 (the “First Refunding Series Bonds” and together with the First Series Bonds, the “Bonds” and each a “Bond”) to be dated their delivery date, expected to be December 20, 2023*. The actual delivery date of the Bonds is herein referred to as the “Closing Date.” Bids for the Bonds will be evaluated and awarded in four separate bid groups as set forth below (“Bid Group A,” “Bid Group B,” “Bid Group C,” and “Bid Group D,” each a “Bid Group” and collectively, the “Bid Groups”). Each Bid Group will be sold separately, each on an all-or-none basis. Each bidder may submit separate bid(s) for one or more Bid Groups at its option. The sale and delivery of Bonds in each Bid Group is not dependent upon the sale and delivery of the Bonds in any other Bid Group. Electronic bids will be received in the manner described in this Notice of Sale, on the Bid Date, at the following times:

<u>Bid Group/Series of Bonds</u>	<u>Principal Amounts</u>	<u>Maturity Dates</u>	<u>Bid Times</u>
A – First Refunding Series	\$772,775,000	2024 through 2033	10:00 AM Eastern
B – First Series	\$331,250,000	2034 through 2038	10:30 AM Eastern
C – First Series	\$331,250,000	2039 through 2043	11:00 AM Eastern
D – First Series	\$672,500,000	2024 through 2033	12:00 PM Eastern

Prior to the acceptance of bids the Commonwealth may modify or amend any provision of this Notice of Sale (this Notice of Sale, together with any modifications or amendments, is referred to herein as the “Notice of Sale”), including (but not limited to):

- (i) the date and/or time it will receive and open electronic bids to purchase the Bonds;
- (ii) the aggregate principal amount of each Bid Group;
- (iii) the principal amount of each maturity in a Bid Group; and
- (iv) the requirements relating to the interest rates on, or initial issue prices or purchase price of, a Bid Group or Bid Groups.

Any such modifications or amendments will be disseminated via the Bond Buyer Wire and posted on the Bid Service (as defined below) not later than 4:00 p.m. Eastern Time on the last business day prior to the Bid Date. Any delay in making such modification or amendment or the failure of any bidder to receive such notice shall not affect the validity of the sale of the Bonds. Bidders are required to bid upon

* Preliminary, subject to change and adjustment as provided in this Notice of Sale.

the Bonds in accordance with this Notice of Sale as it may be modified and amended. The Commonwealth reserves the right to postpone or cancel the sale of one or more Bid Groups at any time.

Any questions on the bidding procedures and sale terms set forth in this Notice of Sale, or any modification or amendment thereof, or any postponement or cancellation of the sale of one or more of the Bid Groups, should be directed to PFM Financial Advisors LLC, Philadelphia, Pennsylvania, telephone (215) 557-1412, Attention: Daniel Kozloff (email: kozloffd@pfm.com); and Sustainable Capital Advisors, Washington, DC, telephone (917) 868-4938, Attention: Jerome Cox (email: coxj@sustainablecap.com) (“Co-Financial Advisors”).

ISSUE: The Bonds are described in the Preliminary Official Statement of the Commonwealth dated November 28, 2023 (the “Preliminary Official Statement”).

BID DATE: December 6, 2023*, or such other date as shall be specified in this Notice of Sale as it may be modified and amended.

DELIVERY OF BIDS: All bidders must electronically deliver bids as described under “ELECTRONIC BIDS” below.

SECURITY: As described herein, the Bonds are direct and general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged for the payment of principal of and interest on the Bonds. See also “SECURITY AND SOURCE OF PAYMENT FOR BONDS” in the Preliminary Official Statement.

REDEMPTION: As described herein, the First Series Bonds maturing on and after September 1, 2034*, are subject to optional redemption prior to maturity on and after September 1, 2033*.

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

The Bonds may be subject to mandatory sinking fund redemption prior to maturity as described herein. See also “THE BONDS – Redemption Provisions” in the Preliminary Official Statement.

TERMS RELATING TO THE BONDS

EACH BIDDER IS DEEMED TO HAVE OBTAINED AND REVIEWED THE PRELIMINARY OFFICIAL STATEMENT PRIOR TO BIDDING FOR THE BONDS. THE DESCRIPTION OF THE BONDS CONTAINED IN THIS NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.

* Preliminary, subject to change and adjustment as provided in this Notice of Sale.

BOND DETAILS: The Bonds will be dated the date of issuance and delivery, will be issued in authorized denominations of \$5,000 or any integral multiple thereof, and will bear interest at such rate or rates as the Commonwealth shall approve on the Bid Date.

Principal will be payable in serial maturities (or mandatory sinking fund redemptions of term bonds as described under “MANDATORY SINKING FUND REDEMPTION AT THE OPTION OF THE BIDDER” hereinbelow) in the amounts, subject to adjustment as provided in “ADJUSTMENT OF PRINCIPAL AMOUNTS AFTER THE RECEIPT OF BIDS” hereunder, on the dates and in the years set forth below:

Preliminary Schedule of Interest Payment Dates

<u>Series</u>	<u>Interest Payment Date</u>
First Series Bonds	March 1 and September 1, commencing March 1, 2024
First Refunding Series Bonds	March 1 and September 1, commencing March 1, 2024

Preliminary Schedules of Maturities ^{(1), (2)}

<u>Maturity Years</u>	<u>First Refunding Series Bonds</u>		<u>First Series Bonds</u>	
	<u>Bid Group / (Bid Time)</u>			
	<u>A / (10:00 AM)</u>	<u>B / (10:30 AM)</u>	<u>C / (11:00 AM)</u>	<u>D / (12:00 PM)</u>
2024	\$ 50,000	-	-	\$ 67,250,000
2025	31,000,000	-	-	67,250,000
2026	91,695,000	-	-	67,250,000
2027	40,010,000	-	-	67,250,000
2028	102,640,000	-	-	67,250,000
2029	108,740,000	-	-	67,250,000
2030	114,950,000	-	-	67,250,000
2031	121,510,000	-	-	67,250,000
2032	128,440,000	-	-	67,250,000
2033	33,740,000	-	-	67,250,000
2034	-	\$ 66,250,000	-	-
2035	-	66,250,000	-	-
2036	-	66,250,000	-	-
2037	-	66,250,000	-	-
2038	-	66,250,000	-	-
2039	-	-	\$ 66,250,000	-
2040	-	-	66,250,000	-
2041	-	-	66,250,000	-
2042	-	-	66,250,000	-
2043	-	-	66,250,000	-
Aggregate Principal Amount	\$772,775,000	\$331,250,000	\$331,250,000	\$672,500,000

⁽¹⁾ Preliminary, subject to adjustment by the Commonwealth as described under “ADJUSTMENT OF PRINCIPAL AMOUNTS AFTER THE RECEIPT OF BIDS” below.

⁽²⁾ These amounts will constitute principal maturities unless the bidder designates all or a portion of such maturities as a mandatory sinking fund redemption portion of a Term Bond. See “MANDATORY SINKING FUND REDEMPTION AT THE OPTION OF THE BIDDER.”

INTEREST RATE AND BIDDING DETAILS: Interest on the Bonds will accrue from the Closing Date to, but not including, the respective maturity dates. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be payable on the dates set forth in the Preliminary Schedule of Interest Payment Dates set forth above.

Each bidder shall designate a rate of interest per annum to be paid on the Bonds of such Bid Group of each maturity subject to the following limitations:

- (i) all Bonds of the same maturity within a series must bear the same rate of interest and no one Bond shall bear more than one rate of interest;
- (ii) no interest rate shall be other than a whole multiple of one-twentieth (1/20) or one-eighth (1/8) of one percent (1%) and a zero rate of interest may not be named; and
- (iii) the issue price of the Bonds of any maturity must be greater than or equal to 98½% of that maturity's par value.

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

INITIAL OFFERING PRICES: Upon a request from the Commonwealth or its agent, bidders must promptly, in any case not later than 60 minutes after receiving the notice of award, submit information specifying the initial offering price of each maturity in their bid for the Bonds in the applicable Bid Group. See also "PROMPT AWARD; SUBMISSION OF SIGNED BID" and "CERTIFICATES TO BE COMPLETED BY THE PURCHASER(S) PRIOR TO CLOSING" below.

OPTIONAL REDEMPTION: The First Series Bonds maturing on and after September 1, 2034*, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after September 1, 2033*, 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.

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

MANDATORY SINKING FUND REDEMPTION AT THE OPTION OF THE BIDDER: Bidders may elect to structure their bid to include term bonds, which term bonds, if selected by the bidder, will be subject to mandatory sinking fund redemption prior to maturity, in the years and amounts shown above in the Preliminary Schedule of Maturities upon payment of 100% of the principal amount of such Bonds to be redeemed, together with accrued interest to the date fixed for redemption. Bonds within a maturity of a particular series to be redeemed shall be selected by lot by the Loan and Transfer Agent. If the Bonds are awarded and no term bonds are designated in the applicable winning bid, such Bonds will mature serially as shown in the in the Preliminary Schedule of Maturities.

SECURITY: The Bonds are direct and general obligations of the Commonwealth to which the full faith and credit of the Commonwealth have been pledged for payment of the interest thereon and the payment of the principal thereof at maturity or prior redemption. The Bonds are a first priority obligation

* Preliminary, subject to change and adjustment as provided in this Notice of Sale.

of the Commonwealth. See the Preliminary Official Statement — “AUTHORIZATION FOR THE BONDS” and “SECURITY AND SOURCE OF PAYMENT FOR BONDS.”

BOOK ENTRY SYSTEM: All bidders for the Bonds must be participants of DTC or affiliated with its participants. The Bonds will be issued in fully registered form to DTC, and registered in the name of DTC’s nominee, Cede & Co. DTC or its agent will hold the Bonds. Bonds will not be physically distributed to DTC participants or beneficial owners of the Bonds. The Commonwealth will not be responsible or liable for payments by DTC to its participants or by DTC participants or indirect participants to beneficial owners or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. The Commonwealth will pay principal of and interest on the Bonds directly to DTC so long as DTC or its nominee, Cede & Co, is the bondholder. See the Preliminary Official Statement – APPENDIX D – “INFORMATION REGARDING THE DEPOSITORY TRUST COMPANY AND ITS BOOK-ENTRY SYSTEM.”

TAX EXEMPTION: McNeese Wallace & Nurick LLC of Harrisburg, Pennsylvania, Law Office of Nathaniel M. Holmes, LLC of Harrisburg, Pennsylvania and Gosfield Law LLC of Gladwyne, Pennsylvania, Co-Bond Counsel to the Commonwealth (“Co-Bond Counsel”), will render their opinions that, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. However, interest on the Bonds is taken into account in determining annual adjusted financial statement income (as defined in Section 56(A) of the Code) of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the federal alternative minimum tax imposed on such corporations under Section 55(b) of the Code for tax years beginning after December 31, 2022. Other provisions of the Code may affect the purchasers of the Bonds. See “TAX MATTERS” and APPENDIX G – “PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL” contained in the Preliminary Official Statement. See also “CERTIFICATES TO BE COMPLETED BY THE PURCHASER(S) PRIOR TO CLOSING” below.

LEGAL OPINIONS ON THE VALIDITY AND PAYMENT OF THE BONDS: The opinions of Co-Bond Counsel and the Attorney General of the Commonwealth referred to in the Preliminary Official Statement under “LEGAL MATTERS,” the proposed forms of which are included in APPENDIX F – “PROPOSED FORM OF OPINION OF THE OFFICE OF ATTORNEY GENERAL OF THE COMMONWEALTH” and APPENDIX G – “PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL” to the Preliminary Official Statement, will be furnished to the Commonwealth and available to each bidder awarded Bonds (each a “Purchaser”) on the Closing Date.

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

Prior to settlement the Purchaser will be required to deliver the certificates referred to under the caption "CERTIFICATES TO BE COMPLETED BY THE PURCHASER(S) PRIOR TO CLOSING" and in the forms hereafter attached.

ADDITIONAL INFORMATION: Prospective bidders are advised to read the entire Preliminary Official Statement. Copies of the Preliminary Official Statement and additional information may be obtained from the Office of the Secretary of the Budget by calling Ms. Natalia Dominguez Buckley, Telephone (717) 787-7342. Copies of the Preliminary Official Statement are also available electronically from the Office of the Budget's web site, <http://www.budget.state.pa.us>.

TERMS OF THE SALE

ELECTRONIC BIDS: The Commonwealth will only accept bids delivered electronically through Parity® ("Bid Service"). Further information about Parity, including any fee charged and applicable requirements, may be obtained from:

55 Water Street
New York, NY 10041
Phone: (212) 894-5021

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

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

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

RECEIPT OF BIDS. THE COMMONWEALTH SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY THE BID SERVICE AS THE OFFICIAL TIME. THE COMMONWEALTH ASSUMES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE DEADLINE FOR RECEIVING BIDS THAT ITS BID IS NONCOMPLIANT OR NOT RECEIVED.

GOOD FAITH DEPOSIT: Each Purchaser of each Bid Group is required to provide to the Commonwealth a good faith deposit in the amount of \$1,000,000 (each, a "Good Faith Deposit"), in the

form of a wire transfer, which must be received no later than 11:00 A.M. Eastern Time on the next business day following the verbal award of the respective Bonds in the applicable Bid Group. If the Good Faith Deposit for the applicable Purchaser/Bid Group is not received by such time, the Commonwealth, at its sole discretion, may revoke its acceptance of such Purchaser's proposal. No interest on the Good Faith Deposit will accrue to any Purchaser or be paid by the Commonwealth. The Good Faith Deposit will be applied to the purchase price of the applicable Bonds in the respective Bid Group. In the event a Purchaser fails to honor the accepted proposal, the applicable Good Faith Deposit will be retained by the Commonwealth.

BASIS OF THE AWARD: The Bonds in each Bid Group will be awarded to the bidder whose bid for such Bid Group will result in the lowest true interest cost ("TIC") to the Commonwealth for the Bonds of such Bid Group. The TIC will be calculated as the nominal interest rate which, when compounded semiannually and used to discount the debt service payments on all of the Bonds in the applicable Bid Group to the Closing Date, results in an amount equal to the purchase price bid for such Bid Group. In the event that two or more bidders offer bids at the same lowest TIC for the Bonds of a Bid Group, the bidder that submitted the winning bid first, as determined by the Commonwealth, will be awarded the Bonds of such Bid Group.

REVOCABLE BIDS ARE NOT PERMITTED.

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

MULTIPLE BIDS FROM A SINGLE BIDDER FOR A PARTICULAR BID GROUP: Each bidder may submit a bid for one or more Bid Groups at its option, provided they adhere to all of the requirements set forth in this Notice of Sale. In the event multiple bids are received for a Bid Group from a single bidder, the Commonwealth shall be entitled to accept the bid with the lowest TIC for the Bonds of such Bid Group, calculated in accordance with this Notice of Sale, as determined by the Commonwealth, from among all such bids, and each bidder agrees by submitting any bid to be bound by such lowest bid unless such bid is expressly withdrawn prior to the deadline for receiving bids. See "BASIS OF THE AWARD."

RIGHT OF WAIVER OR REJECTION: The Commonwealth reserves the right to reject any or all bids. The Commonwealth may reject all bids for any Bid Group(s) while accepting any bids for other Bid Group(s). The Commonwealth also reserves the right to waive, without limitation, any irregularity or informality with respect to any bid, except the time of receipt of bids.

PROMPT AWARD; SUBMISSION OF SIGNED BID: The Commonwealth will take prompt action awarding the Bonds within each Bid Group or rejecting all bids for such Bonds. Formal notice of award will be given promptly by telephone or e-mail by the Commonwealth to each Purchaser and shall constitute acceptance by the Commonwealth of such Purchaser's offer to purchase all the Bonds in the awarded Bid Group on the terms contained herein and in such bid. Bid evaluations or rankings by any Bid Service are not binding on the Commonwealth.

BOND INSURANCE: If a Purchaser arranges municipal bond insurance for any Bonds in a Bid Group, the Purchaser does so at its own risk and expense and the obligation of the Purchaser to pay for the Bonds in such Bid Group may not be conditioned upon the issuance of such municipal bond insurance policy. Such Purchaser shall also promptly advise the Commonwealth of the cost of such municipal bond insurance and shall provide or cause to be provided such further information, certifications and legal opinions related thereto as the Commonwealth may request in forms reasonably satisfactory to the Commonwealth and its Co-Bond Counsel, including, but not limited to, certifications relevant to the

treatment of such municipal bond insurance as a “qualified guarantee” pursuant to Treasury Regulation § 1.148-4(f). The Commonwealth will not enter into any additional agreements with any bond insurer. NEITHER THE FAILURE OF ANY INSURANCE PROVIDER TO ISSUE ITS POLICY NOR ANY CHANGE IN THE CREDIT RATINGS PROVIDED BY ANY RATING AGENCY WITH RESPECT TO THE RELATED INSURANCE PROVIDER OCCURRING BETWEEN THE TIME OF THE AWARD OF THE BONDS AND THE TIME OF THEIR DELIVERY SHALL BE GROUNDS FOR A PURCHASER TO FAIL OR REFUSE TO ACCEPT DELIVERY OF, OR PAY FOR, ALL OF THE BONDS OF THE RELATED BID GROUP. See also “CERTIFICATES TO BE COMPLETED BY THE PURCHASER(S) PRIOR TO CLOSING” below.

CUSIP NUMBERS: The Co-Financial Advisors will timely apply for CUSIP numbers with respect to the Bonds as required by Municipal Securities Rulemaking Board’s Rule G-34. Each Purchaser will be responsible for the cost of assignment of such CUSIP numbers and any CUSIP Service Bureau charges. Each Purchaser shall also notify the CUSIP Service Bureau as to the final structure of the Bonds awarded to such Purchaser.

It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such identification numbers on any Bond nor any error with respect thereto will constitute cause for a failure or refusal by a Purchaser to accept delivery of and pay for Bonds of a Bid Group in accordance with the terms contained herein and in the accepted bid.

EXPENSES OF PURCHASER: In addition to the cost related to CUSIP numbers, each Purchaser will be responsible for The Depository Trust Company charges and all other expenses related to the purchase and delivery of the Bonds awarded to such Purchaser. The cost of preparing the Bonds will be borne by the Commonwealth.

ADJUSTMENT OF PRINCIPAL AMOUNTS AFTER THE RECEIPT OF BIDS: The principal amounts of the Bonds set forth herein under Preliminary Schedules of Maturities reflect estimates of the Commonwealth as to the estimated interest rates, offering prices and purchase prices of the Bonds. After selecting the Purchaser of the First Refunding Series Bonds (the winning bid for Bid Group A), the aggregate principal amount of the First Refunding Series Bonds and the principal amortization schedule may be adjusted as determined by the Commonwealth in \$5,000 increments to reflect the actual interest rates and any premium/discount in such winning bid for Bid Group A, maximize savings and to create a more desirable debt service structure for the First Refunding Series Bonds and the Commonwealth’s outstanding bonds.

Such adjustments shall be made at the sole discretion of the Commonwealth. Any adjustments pursuant to this paragraph will not reduce or increase the aggregate principal amount of the First Refunding Series Bonds to be issued by more than 15%. Adjustments in excess of these limitations can be made with the approval of the Purchaser of the First Refunding Series Bonds. Any such adjustments will be communicated to the Purchaser of the First Refunding Series Bonds within 24 hours after the opening of the bids for Bid Group A. **The aggregate principal amount or principal amortization schedule of the First Series Bonds is not subject to adjustment.**

QUALIFICATION FOR SALE; COMPLIANCE WITH BLUE SKY: The Commonwealth will furnish or cause to be furnished such information, execute or cause to be executed such instruments and take or cause to be taken such other reasonable action in cooperation with each Purchaser, as such Purchaser may deem necessary in order to qualify the Bonds of the related Bid Group for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as such Purchaser may designate; provided, however, that the foregoing shall not require the Commonwealth to register as a dealer or broker or execute a consent to service of process or to qualify as

a foreign corporation in connection with such qualification, in any foreign jurisdiction or to comply with any other requirements reasonably deemed by the Commonwealth to be unduly burdensome.

No Purchaser may sell, offer to sell or solicit any offer to buy Bonds in any jurisdiction where it is unlawful for such Purchaser to make such sale, offer or solicitation, and each Purchaser shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which such Purchaser sells the Bonds.

NO SALES OUTSIDE OF THE UNITED STATES: Each Purchaser will not sell any of the Bonds of the Bid Group awarded to them outside of the United States.

ESTABLISHMENT OF ISSUE PRICE: Each Purchaser of Bonds shall assist the Commonwealth in establishing the issue price of the Bonds and deliver to the Commonwealth prior to closing an issue price certificate (described below), together with the supporting pricing wires or equivalent communications, which may be appropriate or necessary, in the reasonable judgment of such Purchaser, the Commonwealth and Co-Bond Counsel, to assist in establishing the issue price of the Bonds in their respective Bid Group.

The Commonwealth intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining a “competitive sale” for purposes of establishing the issue price of tax-exempt bonds) to apply to the initial sale of the Bonds because:

- (1) the Commonwealth shall disseminate this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the Commonwealth shall have separately received at least three (3) bids for each awarded Bid Group of the Bonds from underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the Commonwealth anticipates awarding the sale of the Bonds to the bidder who in each case submits a firm offer to purchase the Bonds in the respective Bid Group at the lowest TIC, as set forth in this Notice of Sale.

In the event that provision (3) above is not satisfied for any Bid Group of the Bonds, the Commonwealth shall advise the Purchaser that the Commonwealth intends to treat the Initial Public Offering Price of each maturity of the Bonds as the issue price of that maturity (the “Hold-the-Price Methodology”). Bidders of such Bid Group should prepare their bids on the assumption that the Bonds will be subject to the Hold-the-Price Methodology in order to establish the issue price of the Bonds.

By submitting a bid for the Bonds, each such bidder is certifying that (i) such bidder is an underwriter of municipal bonds who has an established industry reputation for underwriting new issuances of municipal bonds, (ii) its bid is a firm offer to purchase all of the Bonds in the respective Bid Group, (iii) its bid is not a “courtesy bid” being submitted for the purpose of assisting in meeting the competitive sale requirements, (iv) its bid was determined without consultation with any other bidder, and (v) such bidder had no opportunity to review other bids submitted by other potential bidders before providing its bid.

CERTIFICATES TO BE COMPLETED BY THE PURCHASER(S) PRIOR TO CLOSING:

Issue Price Certificate. Prior to closing, each Purchaser of Bonds must submit to the Commonwealth a certificate (the “Issue Price Certificate” further described below) in substantially the form attached hereto as Exhibit 1 or Exhibit 2, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Commonwealth and Co-Bond Counsel. In the event the Commonwealth determines that Hold-the-Price Methodology must be applied to establish the issue price of the Bonds, the Issue Price Certificate shall be revised by Co-Bond Counsel to conform with the requirements of Treasury Regulation Section 1.148-1(f)(2)(ii). Additionally, if a Purchaser arranges municipal bond insurance for Bonds purchased by such Purchaser, such Purchaser will also be required to certify as to the net present value savings on such Bonds resulting from the payment of the related insurance premium, as shown on Exhibit 1 or Exhibit 2.

Closing Receipt and Certificate Concerning the Preliminary Official Statement and the final Official Statement. As a condition of delivery of the applicable Bonds each Purchaser will be required to execute and deliver to the Commonwealth, prior to the Closing Date, a certificate in substantially the form attached hereto as Exhibit 3.

DELIVERY AND PAYMENT: Specimen copies of the Bonds will be made available to each Purchaser for inspection by electronic means, at least one business day prior to the Closing Date. Payment for the Bonds must be made by wire on the Closing Date no later than 11:00 a.m. Eastern Time on the Closing Date, in immediately available funds for credit at Manufacturers and Traders Trust Company, Loan and Transfer Agent, in Harrisburg, Pennsylvania, or at such other place and time as may be agreed upon with such successful bidder for each Bid Group.

PRELIMINARY OFFICIAL STATEMENT/OFFICIAL STATEMENT: Based in part on certificates delivered by the Commonwealth set forth under the caption “CLOSING DOCUMENTS,” the Commonwealth deems the Preliminary Official Statement for purposes of subsection (b)(1) of Securities and Exchange Commission Rule 15c2-12 (the “Rule”), to be final as of its date, except for information permitted by the Rule to be omitted from the Preliminary Official Statement. The Preliminary Official Statement shall be subject to amendment or modification as deemed necessary by the Commonwealth.

Within seven business days after the award of the Bonds and at least one business day prior to the delivery of the Bonds, the Commonwealth will furnish to each Purchaser an electronic copy of the Official Statement, including any supplements prepared by the Commonwealth, in a portable document format (PDF) configured to allow the Official Statement to be saved, viewed, printed and retransmitted by electronic means.

Until the earlier of twenty-five (25) days from the “end of the underwriting period” (as defined in the Rule) or the date when all of the respective Bonds have been sold by the Purchaser(s), if, in the reasonable opinion of the Commonwealth and her counsel any event shall occur as a result of which it is necessary to amend or supplement the Official Statement so that it does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading, the Commonwealth, may, and if requested by the Purchaser(s) will, forthwith prepare and furnish to each Purchaser any amendment of or supplement to the Official Statement (in form and substance satisfactory to the Commonwealth’s counsel), which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The Commonwealth will presume that the “end of the underwriting period” occurs on the Closing Date and all of the respective Bonds have been sold by each Purchaser as of the Closing Date unless notified

otherwise in writing by a Purchaser on the Closing Date. After the earlier of twenty-five (25) days from the “end of the underwriting period” or the date when all of the Bonds have been sold by the Purchaser(s), the Commonwealth will no longer be obligated to amend or supplement the Official Statement.

By making a bid for one or more Bid Groups, each Purchaser agrees to:

(i) promptly file a copy of the Official Statement, including any supplements prepared by the Commonwealth, with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) website, unless such information has already been filed by another Purchaser,

(ii) provide to the Commonwealth, in writing, within 24 hours of the award of the Bonds, pricing and other related information with respect to their respective Bonds necessary for completion of the Official Statement,

(iii) disseminate to all members of such Purchaser’s underwriting syndicate copies of the Official Statement, including any supplements prepared by the Commonwealth,

(iv) promptly notify the Commonwealth as soon as all of the Bonds in their respective Bid Group have been sold if such Purchaser has notified the Commonwealth in writing on the Closing Date that there are unsold amounts of the respective Bonds as of such date, and

(v) take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds in their respective Bid Group.

CONTINUING DISCLOSURE: In order to assist the Purchaser(s) in complying with the Rule, the Commonwealth will undertake, pursuant to a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”), to provide certain annual financial information and notices of the occurrence of certain enumerated events. A form of the Continuing Disclosure Agreement is set forth in APPENDIX H to the Preliminary Official Statement and will also be set forth in the Official Statement. The Office of the Budget, on behalf of the Commonwealth, will deliver the Continuing Disclosure Agreement on the Closing Date. For further information about the Commonwealth’s continuing disclosure undertaking, see “CONTINUING DISCLOSURE” in the Preliminary Official Statement.

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Josh Shapiro
Governor

Stacy Garrity
State Treasurer

Timothy L. DeFoor
Auditor General

Dated November 28, 2023

EXHIBIT 1

§ _____
**Commonwealth of Pennsylvania
General Obligation Bonds,
[First Series of 2023/First Refunding Series of 2023]**

BID GROUP [A/B/C/D]

ISSUE PRICE CERTIFICATE

This certificate is furnished by _____, as purchaser (the “Purchaser”) of the \$[_____] Commonwealth of Pennsylvania General Obligation Bonds shown on the attached Schedule 1 (collectively, “Bid Group [] Bonds”) to establish the “issue price” of the Bid Group [] Bonds within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”).

THE UNDERSIGNED HEREBY CERTIFIES AS FOLLOWS:

1. Reasonably Expected Initial Offering Price.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bid Group [] Bonds to the Public by the Purchaser are the prices listed on Schedule 1 (the “Initial Offering Prices”). The Initial Offering Prices are the prices for the Maturities of the Bid Group [] Bonds used by the Purchaser in formulating its bid to purchase the Bid Group [] Bonds as set forth on Schedule 1. Attached as Schedule 2 is a true and correct copy of the bid provided by the Purchaser to purchase the Bid Group [] Bonds .

(b) The Purchaser was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by the Purchaser constituted a firm offer to purchase the Bid Group [] Bonds . [If the Bid Group [] Bonds will be insured:

2. The Purchaser has arranged for a municipal bond insurance policy (the “Bond Insurance”), issued by _____ (the “Bond Insurer”) for the Bid Group [] Bonds .

(a) The present value of the amounts paid to obtain the Bond Insurance is less than the present value of the interest reasonably expected to be saved as a result of having the Bond Insurance, using the yield on the Bid Group [] Bonds as the discount factor for this purpose.

(b) To the best knowledge of the undersigned, the amount to the Bond Insurer for the Bond Insurance is within a reasonable range of premiums charged for comparable credit enhancement for obligations comparable to the obligation evidenced and represented by the Bid Group [] Bonds .

(c) The fees paid and to be paid to obtain the Bond Insurance were determined in arm’s-length negotiations and were required as a condition to the issuance by the Bond Insurer of the Bond Insurance.

(d) To the best of knowledge of the undersigned, the fees paid and to be paid for the Bond Insurance represent a commercially reasonable charge for the transfer of credit risk. Such

fees do not include any direct or indirect payment for a cost, risk or other element that is not customarily borne by guarantors of tax-exempt bonds in transactions in which the guarantor has no involvement other than as guarantor. No non-guarantee services are being provided by the Bond Insurance.]

[2/3]. Defined Terms.

- (a) Issuer means the Commonwealth of Pennsylvania.
- (b) Maturity means principal payment dates with the same credit and payment terms. Bid Group [] Bonds with different payment dates, or Bid Group [] Bonds with the same payment date but different stated interest rates, are treated as separate Maturities.
- (c) Public means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.
- (d) Sale Date means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bid Group [] Bonds is ____, 2023.
- (e) Underwriter means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bid Group [] Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bid Group [] Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bid Group [] Bonds , and by McNees Wallace & Nurick LLC, Law Office of Nathaniel M. Holmes, LLC and Gosfield Law LLC, Co-Bond Counsel, in connection with rendering its respective opinion that the interest evidenced by the Bid Group [] Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bid Group [] Bonds . The certifications contained herein are not necessarily based on personal knowledge, but may instead be based on either inquiry deemed adequate by the undersigned or institutional knowledge (or both) regarding the matters set forth herein.

Schedule 1
to Issue Price Certificate
(Initial Offering Prices)

Schedule 2
to Issue Price Certificate
(Copy of Bid)

EXHIBIT 2

Form of Issue Price Certificate

[IN CASE OF RECEIPT OF LESS THAN 3 QUALIFIED BIDS FOR THE BONDS]

\$ _____

**Commonwealth of Pennsylvania
General Obligation Bonds,
[First Series of 2023/First Refunding Series of 2023]**

BID GROUP [A/B/C/D]

ISSUE PRICE CERTIFICATE

This certificate is furnished by [____], as purchaser (the “Purchaser”) of the \$[____] Commonwealth of Pennsylvania General Obligation Bonds shown on the attached Schedule 1 (collectively, “Bid Group _ Bonds”) to establish the “issue price” of the Bid Group _ Bonds within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”).

1. **Sale of the General Rule Maturities.** As of the date of this certificate, for each Maturity of the Bid Group _ of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. **Initial Offering Price of the Hold-the-Offering-Price Maturities.**

(a) Purchaser offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bid Group _ Bonds is attached to this certificate as Schedule B.

(b) As set forth in the Official Notice of Sale, Purchaser has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bid Group _ Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bid Group _ Bonds during the Holding Period.

3. The Purchaser has arranged for a municipal bond insurance policy (the “Bond Insurance”), issued by [____] (the “Bond Insurer”) for the Bid Group __ Bonds.

(a) The present value of the amounts paid to obtain the Bond Insurance is less than the present value of the interest reasonably expected to be saved as a result of having the Bond Insurance, using the yield on the Bid Group __ Bonds as the discount factor for this purpose.

(b) To the best knowledge of the undersigned, the amount to the Bond Insurer for the Bond Insurance is within a reasonable range of premiums charged for comparable credit enhancement for obligations comparable to the obligation evidenced and represented by the Bid Group __ Bonds .

(c) The fees paid and to be paid to obtain the Bond Insurance were determined in arm’s-length negotiations and were required as a condition to the issuance by the Bond Insurer of the Bond Insurance.

(d) To the best of knowledge of the undersigned, the fees paid and to be paid for the Bond Insurance represent a commercially reasonable charge for the transfer of credit risk. Such fees do not include any direct or indirect payment for a cost, risk or other element that is not customarily borne by guarantors of tax-exempt bonds in transactions in which the guarantor has no involvement other than as guarantor. No non-guarantee services are being provided by the Bond Insurance.

4. **Defined Terms.**

(a) *General Rule Maturities* means those Maturities of the Bid Group _ Bonds listed in Schedule A hereto as the “General Rule Maturities.”

(b) *Hold-the-Offering-Price Maturities* means those Maturities of the Bid Group _ Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

(c) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date (December __, 2023), or (ii) the date on which Purchaser has sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.

(d) *Issuer* means the Commonwealth of Pennsylvania.

(e) *Maturity* means Bid Group _ Bonds with the same credit and payment terms. Bid Group _ Bonds with different maturity dates, or Bid Group _ Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(f) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. A purchaser of any of the Bid Group _ Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(g) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bid Group _ Bonds. The Sale Date of the Bid Group _ Bonds is December __, 2023.

(h) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bid Group _ Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bid Group _ Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bid Group _ Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Purchaser’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the foregoing tax certificate and with respect to compliance with the federal income tax rules affecting the Bid Group _ Bonds, and by McNees Wallace & Nurick LLC, Law Office of Nathaniel M. Holmes, LLC and Gosfield Law LLC, in connection with rendering their opinion that the interest on the Bid Group _ Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal

Revenue Service Form 8038-G and other federal income tax advice that they may give to the Issuer from time to time relating to the Bid Group _ Bonds.

[NAME OF PURCHASER]

By: _____

Name:

Dated: [ISSUE DATE]

SCHEDULE A
SALE PRICES OF THE GENERAL RULE MATURITIES AND
INITIAL OFFERING PRICES OF THE HOLD-THE-OFFERING-PRICE
MATURITIES
(Attached)

SCHEDULE B
PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

EXHIBIT 3

[_____], 2023

Commonwealth of Pennsylvania

Manufacturers and Traders Trust Company
Loan and Transfer Agent of the
Commonwealth of Pennsylvania

Re: Commonwealth of Pennsylvania
General Obligation Bonds,
[First Series of 2023/First Refunding Series of 2023]

Ladies and Gentlemen:

We hereby acknowledge receipt of \$ _____ aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, [First Series of 2023/First Refunding Series of 2023] (the “Bonds”), numbered and maturing as set forth in the attached Schedule A. The Bonds are registered in the name of Cede & Co., as nominee for The Depository Trust Company, securities depository for the Bonds, with whom the Bonds have been deposited.

The undersigned also acknowledges receipt of electronic-only copies of the Preliminary Official Statement dated November 28, 2023 and of the Official Statement dated December __, 2023, with respect to the Bonds, together with one manually or electronically signed copy of the respective opinions of Michelle A. Henry, Attorney General of the Office of Attorney General of the Commonwealth of Pennsylvania, and of McNees Wallace & Nurick LLC, Law Office of Nathaniel M. Holmes, LLC and Gosfield Law LLC, Co-Bond Counsel, which opinions are dated the date hereof. Such Official Statements and opinions have been received in full satisfaction of the number of copies thereof to be furnished by the Commonwealth to us, as the Purchaser (the “Purchaser”), without expense to the Purchaser.

Such Purchaser, as the initial purchaser of such Bonds, has provided to the Commonwealth the initial issue prices or yields on such Bonds as printed in the Official Statement.

Such Purchaser has not undertaken any responsibility for the contents of the Preliminary Official Statement or the Official Statement; provided, however, that in accordance with and as part of its responsibilities under Federal securities laws, such Purchaser has reviewed the information in the Preliminary Official Statement and the Official Statement, and the Purchaser did not notify the Commonwealth of the need to modify or supplement the Preliminary Official Statement on or before the Bid Date and has not notified the Commonwealth of the need to modify or supplement the Official Statement on or before the Closing Date. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Notice of Sale, Appendix I to the Preliminary Official Statement.

Very truly yours,

By: _____
Name: _____
Title: _____

SCHEDULE A

**COMMONWEALTH OF PENNSYLVANIA
GENERAL OBLIGATION BONDS,
[FIRST SERIES OF 2023/
FIRST REFUNDING SERIES OF 2023]**

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP</u>
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