

In the opinion of Bond Counsel, assuming compliance with certain covenants of the Authority, interest on the A Bonds is excluded from the gross income of owners of the A Bonds for federal income tax purposes under existing law, as currently enacted and construed. Interest on the A Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the A Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations as more fully described under the caption "TAX MATTERS" herein. Under the laws of the Commonwealth of Pennsylvania, as currently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax. Interest on the B Bonds is NOT excludable from gross income for federal income tax purposes.



\$313,265,000
SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY
(Allegheny County, Pennsylvania)
consisting of
\$252,000,000 Commonwealth Lease Revenue Bonds, Series A of 2007 (Variable Rate Demand)
\$61,265,000 Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Variable Rate Demand)

Initially Dated: Date of Delivery

First Interest Payment Date: November 1, 2007

Due: as shown herein

Denominations: \$100,000 and \$5,000 multiples in excess thereof

The Sports & Exhibition Authority of Pittsburgh and Allegheny County (the "Authority"), a public instrumentality of the Commonwealth of Pennsylvania (the "Commonwealth"), will issue the above-referenced Commonwealth Lease Revenue Bonds, Series A of 2007 (Variable Rate Demand) (the "A Bonds") and Taxable Series B of 2007 (Variable Rate Demand) (the "B Bonds") (collectively, the "Bonds") under and pursuant to a Trust Indenture dated as of September 15, 2007 (the "Indenture") between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), which will also be the paying agent (the "Paying Agent") with respect to the Bonds pursuant to the Indenture. The Bonds will be issued in fully registered form (without coupons) and will bear interest and mature in the principal amounts and on the dates set forth on the inside of this Official Statement. The Bonds will be issued only in book-entry form initially registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York. The Bonds will be issued in a minimum denomination of \$100,000, and integral multiples of \$5,000 in excess thereof. Interest on the Bonds will be payable on the first Business Day of each month, while such Bonds bear interest at the Weekly Rate, commencing on November 1, 2007. The Bonds will bear interest at a Weekly Rate to be initially established by the Underwriters from their date of initial delivery to but excluding the first day of the next Weekly Rate Period. Thereafter, for each Weekly Rate Period, the Bonds will bear interest at the respective Weekly Rate determined by the respective Remarketing Agents for the respective series of Bonds in accordance with the procedures detailed herein (See "THE BONDS – Interest Rate Period.") All Bonds of each series may be in only one Interest Rate Period at a time. The Interest Rate Period in which a series of Bonds is operating may be changed from time to time. (See "THE BONDS" herein.)

PURPOSE: The proceeds of the Bonds will be used to: (1) acquire, construct and equip a multi-purpose public auditorium and related facilities and expenditures (the "Arena"); (2) pay capitalized interest on the Bonds; (3) fund a Debt Service Reserve Fund, including paying any debt service reserve fund surety bond premiums; (4) fund other reserves; and (5) pay certain costs incurred in connection with the issuance of the Bonds, including, without limitation, fees related to credit enhancement and liquidity enhancement (See "THE PROJECT" herein.)

REDEMPTION: The Bonds are subject to optional and mandatory redemption prior to maturity, as described herein.

SECURITY FOR THE BONDS: The Bonds are payable from, and are secured solely by, certain payments and other revenues to be received by the Authority including: (a) Special Revenues; (b) Swap Receipts; (c) Commonwealth Lease Payments under the Commonwealth Lease (each as hereinafter defined); and (d) other moneys pledged to or held by the Trustee under the Indenture for such purposes (together, the "Trust Estate"). The Trust Estate includes amounts that may be payable to the Authority by the Commonwealth of Pennsylvania (the "Commonwealth") pursuant to an Agreement of Lease between the Authority and the Commonwealth dated as of September 15, 2007, pursuant to which the Authority leases the Arena to the Commonwealth (the "Commonwealth Lease"). Rental payments, if any, to be made by the Commonwealth pursuant to the terms of the Commonwealth Lease will be sufficient together with other funds, to provide for, among other things, the principal of and interest on the Bonds. **Any Commonwealth rental payments that become due are subject to annual appropriation by the General Assembly of the Commonwealth.** The Commonwealth has covenanted in the Commonwealth Lease that in the event it is obligated to make an actual payment of rent under the Commonwealth Lease, there will be included in the Governor's annual budget for the Commonwealth an amount sufficient to pay the rent due under the Commonwealth Lease. (See "SECURITY FOR THE BONDS" herein; See Appendix B for the Form of Commonwealth Lease.)

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED UNDER THE INDENTURE. THE BONDS ARE NOT OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA OTHER THAN THE COMMONWEALTH'S OBLIGATION TO MAKE ANY ANNUAL LEASE PAYMENTS TO THE AUTHORITY UNDER THE COMMONWEALTH LEASE. HOWEVER, ANY ANNUAL LEASE PAYMENTS OWED BY THE COMMONWEALTH PURSUANT TO THE COMMONWEALTH LEASE ARE SUBJECT TO THE ANNUAL APPROPRIATION OF FUNDS FOR SUCH PURPOSE BY THE PENNSYLVANIA GENERAL ASSEMBLY, AND THERE CAN BE NO ASSURANCE THAT SUCH FUNDS WILL BE APPROPRIATED IN ANY FISCAL YEAR OF THE COMMONWEALTH. THE FULL FAITH AND CREDIT OF THE COMMONWEALTH IS NOT PLEDGED FOR THE PAYMENT OF THE BONDS. NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY OF PITTSBURGH, THE COUNTY OF ALLEGHENY, OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED FOR THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER. NO MORTGAGE ON ANY REAL PROPERTY OR LEASEHOLD INTEREST IN, SECURITY INTEREST IN, OR PLEDGE OF REVENUES FROM THE OPERATION OF THE ARENA WILL BE GRANTED FOR THE BENEFIT OF BONDHOLDERS. (SEE "SECURITY FOR THE BONDS" HEREIN.)

BOND INSURANCE: The Scheduled payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by Financial Security Assurance Inc. simultaneously with the delivery of the Bonds.



TENDER. The Bonds are subject to optional and mandatory tender as set forth herein. While in the Weekly Rate Period, the purchase price of Bonds tendered or deemed tendered for purchase, and the interest due thereon, will be secured by a liquidity facility in the form of a Standby Bond Purchase Agreement (the "Standby Bond Purchase Agreement"), subject to certain terms and conditions as described herein and in the Standby Bond Purchase Agreement (see "THE BONDS – Optional Tenders and Mandatory Tenders" and "STANDBY BOND PURCHASE AGREEMENT" herein) provided by



This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision regarding the Bonds. This Official Statement describes the terms and provisions of the Bonds generally, and while in the Weekly Rate Period only. If the Authority converts the Bonds to another Interest Rate Period, a supplement to this Official Statement or a new official statement or remarketing circular describing the Fixed Rate Period will be prepared.

AUTHORIZATION FOR ISSUANCE: The Bonds are being issued in accordance with the Sports and Exhibition Authority Act, 16 Pennsylvania Statutes § 5501-A et seq., as amended, and pursuant to a Resolution duly adopted by the Authority on June 7, 2007 (the "Resolution") and pursuant to the Indenture as defined herein.

CONTINUING DISCLOSURE UNDERTAKING: The Authority and the Commonwealth have each agreed to provide, or cause to be provided, in a timely manner, certain information in accordance with the requirements of Rule 15c2-12, as promulgated under the Securities Exchange Act of 1934, as amended and interpreted (the "Rule"). (See Appendix G, "Proposed Forms of Continuing Disclosure Agreements" herein.)

LEGAL APPROVALS: The Bonds are offered when, as and if issued by the Authority, subject to prior sale, withdrawal or modification of the offer without any notice and to the approving opinion of Eckert Seamans Cherin & Mellott, LLC and R. Darryl Ponton & Associates, each of Pittsburgh, Pennsylvania, Co-Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Buchanan Ingersoll & Rooney PC, Pittsburgh, Pennsylvania, for the Commonwealth by its special counsel, Buchanan Ingersoll & Rooney PC, Harrisburg, Pennsylvania, for the Bank by its counsel, Cohen & Grigsby, P.C., Pittsburgh, Pennsylvania, and for the Underwriters by their Co-Counsel, Thorp Reed & Armstrong, LLP and McGuireWoods LLP, each of Pittsburgh, Pennsylvania. It is expected that the Bonds will be available for delivery to the Trustee on or about October 4, 2007.

The date of this Official Statement is October 2, 2007.



Mellon Financial Markets, LLC

Other than with respect to information concerning Financial Security Assurance Inc. (“Financial Security”) contained under the caption “Description of the Insurer”, Appendix E “Specimen Municipal Bond Insurance Policy” and Appendix F “Specimen Debt Service Reserve Fund Surety Policy” herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

\$313,265,000
SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY
(Allegheny County, Pennsylvania)
consisting of
\$252,000,000 Commonwealth Lease Revenue Bonds, Series A of 2007 (Variable Rate Demand)
\$61,265,000 Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Variable Rate Demand)

Initially Dated: Date of Delivery
First Interest Payment: November 1, 2007

Due: as shown herein
Denominations: \$100,000 and \$5,000 multiples in excess thereof

\$252,000,000 A Bond: maturing November 1, 2038

\$61,265,000 B Bond: maturing November 1, 2039

(Price 100%)

The A Bonds and B Bonds will bear interest at a Weekly Rate to be initially established by the Underwriters from their date of initial delivery to but excluding the first day of the next Weekly Rate Period for the respective series of A Bonds and B Bonds. Interest will be payable initially on November 1, 2007 and thereafter, while in the Weekly Rate Period, on the first Business Day of each month. The Weekly Rate will be determined by the Remarketing Agent until a conversion to a different Interest Rate Period (as hereinafter defined.)

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information set forth in this Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without the entire Official Statement.

- Issuer**..... Sports & Exhibition Authority of Pittsburgh and Allegheny County (Allegheny County, Pennsylvania) (the "Authority")
- Bonds** Commonwealth Lease Revenue Bonds, Series A of 2007 (Variable Rate Demand) in the aggregate principal amount of \$252,000,000, and Taxable Series B of 2007 (Variable Rate Demand) in the aggregate principal amount of \$61,265,000 (together, the "Bonds"), initially dated the date of delivery of the Bonds.
- Denominations** initially \$100,000 and integral multiples of \$5,000 in excess thereof.
- Maturity**..... A Bonds: November 1, 2038; B Bonds: November 1, 2039.
- Interest**..... Payable on the first Business Day of each month commencing November 1, 2007. This Official Statement provides information with respect to the Bonds while bearing interest on a Weekly Rate only. Upon conversion of the Bonds to a different Interest Rate Mode, a new offering document will be prepared and distributed by the Authority.
- Redemption Provisions**..... The Bonds are subject to optional and mandatory redemption prior to their stated maturity dates as described herein.
- Tender Provisions**..... The Bonds will be subject to optional and mandatory tender as set forth herein. While in the Weekly Rate Period, the purchase price of Bonds tendered or deemed tendered for purchase, and the interest due thereon, will be secured by a liquidity facility in the form of a Standby Bond Purchase Agreement with PNC Bank, National Association (the "Bank") (the "Standby Bond Purchase Agreement"), subject to certain terms and conditions as described herein and in the Standby Bond Purchase Agreement (see "**THE BONDS – Optional Tenders and Mandatory Tenders**" and "**STANDBY BOND PURCHASE AGREEMENT**" herein) provided by PNC Bank, National Association.
- Form of Bonds**..... Book-Entry Only.
- Application of Proceeds**..... The proceeds of the Bonds will be used for: (i) the acquisition, construction and equipping of a multi-purpose public auditorium and related facilities and expenditures (the "Arena"); (ii) the payment of capitalized interest on the Bonds; (iii) the funding of a Debt Service Reserve Fund, including payment of the premium for any debt service reserve fund surety bonds; (iv) the funding of other reserve funds; and (v) the payment of certain costs incurred in connection with the issuance of the Bonds, including, but not limited to, fees related to credit enhancement and liquidity enhancement (collectively, the "2007 Project"). (See "**USE OF PROCEEDS**" herein.)
- Security for the Bonds**..... The Bonds are payable from, and are secured solely by, certain payments and other revenues to be received by the Authority including: (a) Special Revenues; (b) Swap Receipts; (c) Commonwealth Lease Payments under the Commonwealth Lease (each as hereinafter defined); and (d) other moneys pledged to or held by the Trustee under the Indenture for such purposes. **THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED UNDER THE INDENTURE. THE BONDS ARE NOT OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA OTHER THAN THE COMMONWEALTH'S OBLIGATION TO MAKE ANY ANNUAL LEASE PAYMENTS TO THE AUTHORITY UNDER THE COMMONWEALTH LEASE. HOWEVER, ANY ANNUAL LEASE PAYMENTS OWED BY THE COMMONWEALTH PURSUANT TO THE COMMONWEALTH LEASE ARE SUBJECT TO THE ANNUAL APPROPRIATION OF FUNDS FOR SUCH PURPOSE BY THE PENNSYLVANIA GENERAL ASSEMBLY, AND THERE CAN BE NO ASSURANCE THAT SUCH FUNDS WILL BE APPROPRIATED IN ANY FISCAL YEAR OF THE COMMONWEALTH. THE FULL FAITH AND CREDIT OF THE COMMONWEALTH IS NOT PLEDGED FOR THE PAYMENT OF THE BONDS. NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY OF PITTSBURGH, THE COUNTY OF ALLEGHENY, OR ANY POLITICAL**

SUBDIVISION THEREOF IS PLEDGED FOR THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER. NO MORTGAGE ON ANY REAL PROPERTY OR LEASEHOLD INTEREST IN, SECURITY INTEREST IN, OR PLEDGE OF REVENUES FROM THE OPERATION OF THE ARENA WILL BE GRANTED FOR THE BENEFIT OF THE BONDHOLDERS. (SEE “SECURITY FOR THE BONDS” HEREIN.)

Credit Enhancement..... Financial Security Assurance Inc. has issued a municipal bond insurance policy for the Bonds which insures payment of principal and interest to the holders of the Bonds. (See **“DESCRIPTION OF THE INSURER”** herein.)

Liquidity Facility The purchase price of Bonds which are tendered or deemed tendered for purchase will be payable, to the extent that remarketing proceeds are not sufficient therefor, from funds made available by the Bank pursuant to a Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement will provide liquidity for the purchase of those Bonds which are optionally tendered for purchase or are subject to mandatory purchase, but not remarketed by the Remarketing Agent. The Standby Bond Purchase Agreement is scheduled to expire on May 1, 2017, but may terminate earlier upon the occurrence of certain Events of Default described herein. The enforceability of the Standby Bond Purchase Agreement may be limited by the bankruptcy, insolvency or reorganization of the Bank. No assurances can be given that in such event the obligations of the Bank under the Standby Bond Purchase Agreement would survive. (See **“STANDBY BOND PURCHASE AGREEMENT”** herein.)

Bond Rating..... Standard & Poor’s Rating Group and Moody’s Investors Service are expected to assign their municipal bond ratings of “AAA” and “Aaa”, respectively, to the Bonds, with the understanding that upon delivery of the Bonds, the Municipal Bond Insurance Policy insuring the payment when due of the principal of and interest on the Bonds will be issued by the Insurer. (See **“BOND RATING”** herein.)

..... Standard & Poor’s Rating Group and Moody’s Investors Service are expected to assign their short term ratings of “A-1+” and “VMIG 1”, to the Bonds with the understanding that upon delivery of the Bonds (i) the Standby Bond Purchase Agreement supporting the payment of the purchase price of the Bonds will be executed and delivered by the Bank and (ii) the Municipal Bond Insurance Policy will be delivered by the Insurer to the Trustee. (See **“BOND RATING”** herein.)

The Authority has not applied for an underlying rating based on its own creditworthiness.

Continuing Disclosure

Undertaking The Authority and the Commonwealth have each agreed to provide, or cause to be provided, in a timely manner, certain information in accordance with the requirements of Rule 15c2-12, as promulgated under the Securities Exchange Act of 1934, as amended and interpreted (the “Rule”). (See **“CONTINUING DISCLOSURE UNDERTAKING”** herein.)

Trustee & Paying Agent The Bank of New York Trust Company, N.A.

**SPORTS & EXHIBITION AUTHORITY
OF PITTSBURGH AND ALLEGHENY COUNTY**

Regional Enterprise Tower
Suite 2750, 425 Sixth Avenue
Pittsburgh, PA 15219

MEMBERS OF THE BOARD

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Rev. Dr. William H. Curtis	Vice Chairman
Dr. Edie Shapira	Secretary
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Mary K. Conturo

CHIEF FINANCIAL OFFICER

Rosanne Casciato

AUTHORITY SOLICITOR

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AUTHORITY FINANCIAL ADVISOR

Public Financial Management
Philadelphia, Pennsylvania

SPECIAL COUNSEL TO THE COMMONWEALTH

Buchanan Ingersoll & Rooney PC
Harrisburg, Pennsylvania

LIQUIDITY FACILITY PROVIDER

PNC Bank, National Association
Pittsburgh, Pennsylvania

AUTHORITY SWAP COUNSEL

Schnader Harrison Segal & Lewis LLP
Pittsburgh, Pennsylvania

UNDERWRITERS

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Mesirow Financial, Inc.
and
Mellon Financial Markets, LLC
Pittsburgh, Pennsylvania

REMARKETING AGENT

PNC Capital Markets LLC
Pittsburgh, Pennsylvania

TRUSTEE

The Bank of New York Trust Company, N.A.
Pittsburgh, Pennsylvania

CO-BOND COUNSEL

Eckert Seamans Cherin & Mellott, LLC
and
R. Darryl Ponton & Associates
Pittsburgh, Pennsylvania

CO-UNDERWRITERS' COUNSEL

Thorp Reed & Armstrong, LLP
and
McGuireWoods LLP
Pittsburgh, Pennsylvania

IN CONNECTION WITH THIS OFFERING, 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 NOTICE.

No dealer, salesman, or any other person has been authorized by the Authority or the Underwriters (defined herein) to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby by any person in any jurisdiction in which such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the affairs of the parties referred to above since the date hereof or the earlier date set forth herein as of which certain information contained herein is given.

This Official Statement and the information contained herein are subject to completion or amendment. The Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances will this Official Statement constitute an offer to sell or a solicitation of an offer to sell or a solicitation of an offer to buy nor will there be any sale of the Bonds in any such jurisdiction in which said offer or sale would not be lawful prior to registration or qualification under the securities laws of any such jurisdiction. The following Official Statement, as of its date, has been deemed final by the Authority for the purposes of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS PRELIMINARY OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY 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.

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The Table of Contents does not list all of the subjects in this Official Statement, and in all instances reference should be made to the complete Official Statement to determine the subjects set forth herein. No significance should be attached to the particular order in which subjects appear herein.

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OFFICIAL STATEMENT

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY (ALLEGHENY COUNTY, PENNSYLVANIA)

\$252,000,000 Commonwealth Lease Revenue Bonds, Series A of 2007 (Variable Rate Demand)
\$61,265,000 Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Variable Rate Demand)

INTRODUCTION

This Official Statement, including the cover page and Appendices, is furnished by the Sports & Exhibition Authority of Pittsburgh and Allegheny County (the "Authority") in connection with the offering of \$252,000,000 aggregate principal amount of the Authority's Commonwealth Lease Revenue Bonds, Series A of 2007 (Variable Rate Demand) (the "A Bonds") and \$61,265,000 aggregate principal amount of the Authority's Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Variable Rate Demand) (the "B Bonds") (together, the "Bonds"). The Bonds are issued pursuant to the Sports and Exhibition Authority Act, 16 Pennsylvania Statutes § 5501-A et seq., as amended (the "Sports and Exhibition Authority Act" or the "Act"), and pursuant to a Trust Indenture, dated as of September 15, 2007 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as Trustee (the "Trustee").

The Authority is empowered under the Sports and Exhibition Authority Act, among other things, to construct, improve, maintain and operate public auditoriums and exhibit halls, structures for athletic contests and all facilities necessary or incident thereto, including provisions for adequate off-street parking. In order to carry out its corporate purposes, the Authority is granted the power to issue bonds, to cooperate with the Commonwealth of Pennsylvania (the "Commonwealth"), and to enter into contracts necessary or convenient to the exercise of its powers. See "THE AUTHORITY" herein.

The proceeds from the sale of the Bonds will be used by the Authority for: (i) the acquisition, construction and equipping of a multi-purpose public auditorium and related facilities and expenditures (the "Arena"); (ii) the payment of capitalized interest on the Bonds; (iii) the funding of a Debt Service Reserve Fund, including payment of the premium for any debt service reserve fund surety bonds; (iv) the funding of other reserve funds; and (v) the payment of certain costs incurred in connection with the issuance of the Bonds, including, but not limited to, fees related to credit enhancement and liquidity enhancement (collectively, the "2007 Project"). See "USE OF PROCEEDS" herein.

The Bonds are limited obligations of the Authority payable solely from the Trust Estate pledged under the Indenture. The Bonds are not obligations of the Commonwealth of Pennsylvania other than the Commonwealth's obligation to make any annual lease payments to the Authority under the Commonwealth Lease. However, any annual lease payments owed by the Commonwealth pursuant to the Commonwealth Lease are subject to the annual appropriation of funds for such purpose by the Pennsylvania General Assembly, and there can be no assurance that such funds will be appropriated in any fiscal year of the Commonwealth. The full faith and credit of the Commonwealth is not pledged for the payment of the Bonds. Neither the credit nor the taxing power of the City of Pittsburgh, the County of Allegheny, or any political subdivision thereof is pledged for the payment of the Bonds. The Authority has no taxing power. No mortgage on any real property or leasehold interest in, security interest in, or pledge of revenues from the operation of the Arena will be granted for the benefit of Bondholders. (See "SECURITY FOR THE BONDS" herein.)

Payment of principal of and interest on the Bonds when due will be insured pursuant to an irrevocable municipal bond insurance policy (the "Municipal Bond Insurance Policy") to be delivered at closing by Financial Security Assurance Inc. ("FSA" or the "Insurer"). FSA has also provided forward

commitments to provide, subject to certain conditions in the commitments, one or more debt service reserve fund surety bonds for the A Bonds in lieu of the cash amounts funded at closing with Bond proceeds in the Debt Service Reserve Fund (collectively, the “Debt Service Reserve Fund Surety Bond”). In addition, a Debt Service Reserve Fund Surety Bond will be delivered by FSA upon the issuance of the Bonds to satisfy the Reserve Requirement for the B Bonds. Information about this Municipal Bond Insurance Policy and the Debt Service Reserve Fund Surety Bond are contained herein. See “DESCRIPTION OF THE INSURER” herein. Specimens of the Municipal Bond Insurance Policy and the Debt Service Reserve Fund Surety Bond are included in Appendix E and Appendix F herein, respectively.

The purchase price of the Bonds which are tendered or deemed tendered for purchase will be payable, to the extent that remarketing proceeds are not sufficient therefor, from funds made available by PNC Bank, National Association (the “Bank”) pursuant to a Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement will provide liquidity for the purchase of those Bonds which are optionally tendered for purchase or are subject to mandatory purchase, but not remarketed by PNC Capital Markets LLC (the “Remarketing Agent”). The Standby Bond Purchase Agreement is scheduled to expire on May 1, 2017, but may terminate earlier upon the occurrence of certain Events of Default described herein. The enforceability of the Standby Bond Purchase Agreement may be limited by the bankruptcy, insolvency or reorganization of the Bank. No assurances can be given that in such event the obligations of the Bank under the Standby Bond Purchase Agreement would survive. (See “STANDBY BOND PURCHASE AGREEMENT” herein.)

The Indenture provides for the issuance of Additional Bonds on a parity with the Bonds for any purpose permitted under the Act, subject, however, to the limitations set forth in the Indenture. See Appendix A to this Official Statement.

All references in this Official Statement to statutes and documents are qualified in their entirety by reference to the complete text of each law and agreement, and all references to the Bonds are qualified in their entirety by reference to the form thereof and the information with respect thereto in the Indenture.

Neither the delivery of this Official Statement nor any sale of the Bonds made hereunder shall, under any circumstances, create any implication that there have been no changes in the affairs of the Authority, the Commonwealth, the Bank, the Insurer, or the Counterparty (as defined herein) since the date of this Official Statement or the earliest date as of which certain information contained herein is given.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. All capitalized terms not otherwise defined in this Official Statement (unless otherwise defined herein) shall have the meanings ascribed to them in Appendix A.

THE AUTHORITY

Overview

The Authority was incorporated on February 3, 1954 under the name Public Auditorium Authority of Pittsburgh and Allegheny County pursuant to the Public Auditorium Authorities Law (Act of July 29, 1953, P.L. 1034), as a joint authority organized by the City of Pittsburgh (the “City”) and the County of Allegheny (the “County”) for the purpose of benefiting the public by, among other things, increasing its educational, cultural, physical, civic, social and moral welfare. Effective as of November

24, 1999, the name of the Authority was changed to Sports & Exhibition Authority of Pittsburgh and Allegheny County. The Public Auditorium Authority Law was re-codified and continued as the Act pursuant to the Act of October 30, 2000, P.L. 616. The Authority is authorized under the Act to construct, improve, maintain and operate public auditoriums and exhibit halls, including structures for conventions, athletic contests, and exhibitions and all facilities necessary or incident thereto, to borrow money, to issue bonds therefor, and to secure the payment of such bonds, to enter into contracts, leases and licenses with, and to accept grants from, private sources, the federal government, the Commonwealth, its agencies or any political subdivisions thereof, and to collect rentals, admissions and license fees for the use of its projects. The Authority's term of existence extends until the year 2049.

The Authority funds its operations from a variety of sources, including but not limited to, the following: proceeds of a County hotel room excise tax, parking revenues, building rent, ancillary income and food/beverage income at the Convention Center (defined herein).

Current Operations

The Authority owns PNC Park, Heinz Field, the David L. Lawrence Convention Center, Mellon Arena, North Shore Garage, North Shore Riverfront Park, the Benedum Center and the Senator John Heinz Pittsburgh Regional History Center. The Authority leases PNC Park and Heinz Field to Pittsburgh Associates (holder of the Pittsburgh Pirates Major League Baseball franchise) and PSSI Stadium Corp. (a related entity to the holder of the Pittsburgh Steelers National Football League franchise), respectively, which operate the facilities through 2030. The Mellon Arena is leased to Lemieux Group LP, (the holder of the Pittsburgh Penguins National Hockey League franchise) which is responsible for its operation and management. The Authority oversees management of the Convention Center, North Shore Garage and North Shore Riverfront Park. The Authority's ownership of the Benedum Center and the Senator John Heinz Pittsburgh Regional History Center is for financing purposes only; the Authority has no significant operating or management responsibility with respect to those facilities.

David L. Lawrence Convention Center. The David L. Lawrence Convention Center (the "Convention Center"), is located in the downtown area of the City, at the edge of the Cultural District. Designed by Rafael Vinoly Architects, the entire building is approximately 1.45 million square feet. The Convention Center contains 250,000 square feet of column-free, primary exhibition space and 80,000 square feet of secondary exhibition space. Other features include a 31,600 square foot ballroom (the largest in the City), a 12,000 square foot kitchen, 51 meeting rooms, 2 lecture halls, 37 loading docks and a 710-car parking garage. The facility is host to a variety of conventions, trade shows, meetings and banquets with visitors from around the country.

Mellon Arena. First opened as the Civic Arena in 1961, the facility was renamed Mellon Arena in 2000. The Authority owns the building, which seats 17,537 and is located in the downtown area of the City. It is the venue for the Pittsburgh Penguins hockey games and a variety of other events, including World Wrestling Entertainment, NCAA Basketball, circuses and concerts. Mellon Arena was leased to SMG, a facilities management company, for operation through June 30, 2007. As of July 1, 2007, SMG's interest as tenant was conveyed to Lemieux Group LP, and SMG manages the facility pursuant to a management agreement with Lemieux Group LP. The Arena to be built with a portion of the proceeds of the Bonds will replace the Mellon Arena as the venue of the described activities.

PNC Park. In April 2001, the Authority completed construction of a 38,000-seat, classically styled baseball park ("PNC Park") located along the Allegheny River within walking distance of downtown Pittsburgh. The Authority leases PNC Park to Pittsburgh Associates, the holder of the Pittsburgh Pirates Major League Baseball franchise. The facility is two tiers in height with a continuous lower grandstand, offering an intimate setting for fans. It includes 69 luxury suites, 2,500 club seats (with a 400 seat field club directly behind home plate) and numerous retail establishments. PNC Park cost

approximately \$271 million to build and has been named "Best Ballpark" by ESPN in September, 2003 and by *Reader's Digest* in "America's 100 Best 2004." It is operated and maintained by Pittsburgh Associates.

Heinz Field. In August 2001, the Authority completed construction of a new 65,000-seat football stadium ("Heinz Field"). The Authority leases the football stadium to PSSI Stadium Corp., a related entity to the holder of the Pittsburgh Steelers National Football League franchise. The football stadium is located on the Allegheny River within walking distance of downtown Pittsburgh. Heinz Field is also home to the University of Pittsburgh Panthers football team, and is a venue for concerts and special events throughout the year. The facility cost approximately \$261 million to build and includes 6,600 club seats and 127 luxury suites.

Supporting Parking Facilities. The Authority owns two parking garages that support recent development. The North Shore Garage ("North Shore Garage") was constructed to meet the increased parking demand from the new stadiums, the Warhol Museum and surrounding businesses on the North Shore. The parking structure, which was completed in April 2001, contains 930 spaces, four points of ingress/egress and high-speed elevators. The North Shore Garage also holds three commercial retail spaces with a total square footage of 15,685. Additionally, as part of the construction of the Convention Center, the Authority built a 710-car integral parking garage that accommodates visitors and guests. The garage is two stories, with two points of ingress/egress and 4,800 square feet of retail space.

North Shore Riverfront Park. North Shore Riverfront Park ("North Shore Riverfront Park") is an eleven-acre, bi-level, linear section of public green space located along the northern banks of the Allegheny River, bounded by PNC Park and Heinz Field. The Authority began construction of North Shore Riverfront Park in November 2000. Features include a riverwalk, rolling lawns and planting beds, a fishing pier, an interactive water feature, a brick esplanade, boat tie-ups and access to utilities. North Shore Riverfront Park opened in phases, and has quickly become a popular destination for recreation and special events. The Authority is responsible for event programming and maintenance oversight. It is also responsible for continued development near the Carnegie Science Center and other park enhancement projects that are not yet complete.

Long Term and Other Indebtedness

As of June 1, 2007, the Authority has issued and outstanding: (a) \$174,320,000 aggregate principal amount of Regional Asset District Sales Tax Revenue Bonds, Series of 1999 (the "1999 RAD Tax Bonds"), (b) \$191,420,000 aggregate principal amount of Hotel Room Excise Tax Revenue Bonds, Series of 1999 (the "Hotel Tax Bonds"), (c) \$6,020,000 aggregate principal amount of Auditorium Bonds, Refunding Series A of 2005 (the "Auditorium Bonds"), (d) \$16,315,000 aggregate principal amount of Taxable Ticket Surcharge Revenue Bonds, Series of 2000 (the "Ticket Surcharge Bonds"), (e) \$25,390,000 aggregate principal amount of Parking Revenue Bonds, Series A of 2001 (the "Parking Revenue Bonds"), and (f) \$8,525,000 aggregate principal amount of Regional Asset District Sales Tax Revenue Bonds, Refunding Series of 2005 (the "2005 Refunding Bonds").

The 1999 RAD Tax Bonds were issued to fund, in part, the construction of PNC Park, Heinz Field and, at the discretion of the Authority, the expansion of the Convention Center. The 1999 RAD Tax Bonds are payable from certain sales tax revenues of the Allegheny Regional Asset District which have been assigned to the Authority. The final maturity of the 1999 RAD Tax Bonds is 2031.

The Hotel Tax Bonds were issued to finance the expansion of the Convention Center and related facilities and are payable from a portion of certain hotel tax revenues collected by the County and assigned to the Authority. The final maturity of the Hotel Tax Bonds is 2035.

The Auditorium Bonds refinanced outstanding debt related to Mellon Arena and provided funds for certain operating expenses at the Convention Center. The Auditorium Bonds are payable from payments to be made by the City and the County under a support agreement with the Authority. The final maturity of the Auditorium Bonds is 2018.

The Ticket Surcharge Bonds were issued to fund a portion of the construction costs of Heinz Field. The Ticket Surcharge Bonds are payable from certain revenues from a 5% surcharge imposed by the Authority on tickets sold for certain National Football League exhibition and regular season games played at Heinz Field. The final maturity of the Ticket Surcharge Bonds is 2030.

The Parking Revenue Bonds were issued to pay costs of the Regional Destination Financing Plan of the County and the City. The Parking Revenue Bonds are payable from revenues of the North Shore Garage and certain other parking revenues. The final maturity of the Parking Revenue Bonds is 2030.

The 2005 Refunding Bonds were issued to currently refund a portion of the Auditorium Bonds and to fund certain operating expenses at the Convention Center. The 2005 Bonds are payable from grants made to the Authority pursuant to the terms of an Amended and Restated Cooperation and Support Agreement by and among the Authority, the Allegheny Regional Asset District, the City and the County. The final maturity of the 2005 Refunding Bonds is 2019.

As of June 15, 2007 the Authority also has outstanding (a) a \$9,444,444 note to PNC Bank, National Association, (b) a \$9,444,444 note to Dollar Bank (c) a \$1,406,745 note and a \$1,200,000 note, each payable to the Stadium Authority of the City of Pittsburgh (the "Stadium Authority"), and (d) a \$1,500,000 note to the Howard Heinz Endowment and a \$1,500,000 note to the Vira I. Heinz Endowment (collectively, the "Heinz Endowments").

The PNC Bank and Dollar Bank notes were issued in April 2004 to fund capital and operating costs of the Convention Center. Principal repayment has been deferred until January 1, 2008; interest is currently payable based upon a floating rate tied to 93% of the prime rate. The notes are payable from pledged hotel tax revenue, Convention Center garage net income and sponsorship payments.

The Stadium Authority note of \$2,400,000 was issued in November 2002 to fund public infrastructure improvements around PNC Park and Heinz Field, of which \$1,406,745 is outstanding at June 15, 2007. This note is payable from the general operating funds of the Authority and has an interest rate of 2.5%. The Stadium Authority note of \$1,200,000 was issued in May of 2005, bears interest at a variable rate and is to be repaid upon the Authority's receipt of specified funding. The proceeds of this note were used for capital costs at the Convention Center.

The Heinz Endowments notes were each issued in December 2002. Proceeds funded certain construction elements of the Convention Center related to achieving a Gold LEED ("Leadership in Energy and Environmental Design") rating from the U.S. Green Building Council for excellence in high performance sustainable development. The notes are payable from the general operating funds of the Authority. Repayment does not begin until 2008, with interest payable at the rate of 1%.

Board and Personnel

The Authority's board consists of seven members, three of whom are appointed by the Mayor of the City, three of whom are appointed by the County Executive with approval by the County Council and one of whom is appointed by the Mayor and the County Executive jointly with approval by the County Council. The board members serve without compensation for terms of five years, with the term of at least one member expiring each year. The board members serve at the will of the appointing body. The members of the board are identified on page iv of this Official Statement.

The senior staff of the Authority are:

Mary K. Conturo, Executive Director. Ms. Conturo became Executive Director for the Authority in April 2004. In that role, she is responsible for overseeing all Authority activities related to Heinz Field, PNC Park, the Convention Center, North Shore Riverfront Park, Mellon Arena, and the development of the new Arena. Prior to becoming the Executive Director, Ms. Conturo served as Special Counsel for the Authority (2001-2004).

From 1990 through 1993 Ms. Conturo served as City Solicitor for the City of Pittsburgh. For the three years prior to that (1986 – 1989), she was with the law firm of Eckert Seamans Cherin & Mellott, LLC, and subsequent to her time with the City, she was with the law firm of Kutak Rock LLP (1994 – 2000). While in private practice, Ms. Conturo's primary focus was municipal finance.

Ms. Conturo was graduated Phi Beta Kappa from Chatham College, with a Bachelors Degree in Psychology. She graduated from the University of Pittsburgh School of Law in 1979.

Douglas Straley, Project Executive. Mr. Straley was appointed Project Executive for the Authority in January 2007 and is responsible for the development and construction management oversight of all Authority projects including the Arena, a Convention Center Hotel, Riverfront Park, North Shore Option Area and related infrastructure. From 1998 through 2006, Mr. Straley served as the Development Manager for the Authority and was directly involved with facilitating the development of PNC Park, Heinz Field, the North Shore Parking Garage and West General Robinson Street Parking Garage and the Convention Center as well as oversight of the daily activities at the Convention Center and Mellon Arena.

Prior to joining the Authority, Mr. Straley worked as a Special Project Manager in the Allegheny County Department of Economic Development. His responsibilities included facilitating predevelopment activities, briefing stakeholders, and preparing financing documents related to the Convention Center, PNC Park and Heinz Field.

Mr. Straley received a Bachelors Degree in International Studies from Dickinson College in 1993 and a Masters Degree from University of Pittsburgh's Graduate School of Public and International Affairs in 1995.

Rosanne Casciato, Chief Financial Officer. Ms. Casciato began her work as the Chief Financial Officer of the Authority in June 2007. Her responsibilities include overseeing the financial position of the capital and operating budgets in addition to managing matters of general accounting and banking, employee benefits, and insurance.

Most recently, from May 2006 through June 2007, Ms. Casciato served as the Chief Financial Officer for A Second Chance, Inc. There she was responsible for managing all financial operations, developing and implementing accounting policies and procedures, and ensuring compliance with budgetary reporting requirements.

For the twelve years prior, Ms. Casciato was with Phipps Conservatory and Botanical Gardens, where she was the Director of Operations (1999-2006) and Business Manager (1994-1999). She was the Assistant Director of Administration at the City of Pittsburgh Department of Public Works from 1992 to 1994. Ms. Casciato was the Senior Budget Analyst for the City of Pittsburgh's Office of the Mayor and Budget from 1989 to 1992.

Ms. Casciato received a Bachelors Degree of Science in Business from Duquesne University in 1979 and then went on to obtain a Masters of Business Administration from the University of Pittsburgh in 1986.

THE PROJECT

In March 2007, the Authority, Lemieux Group LP (the "Arena Operator"), the Commonwealth of Pennsylvania, the City of Pittsburgh and the County of Allegheny executed a Memorandum of Understanding as to a venture to build, operate and maintain a new multi-purpose Arena. The Arena and the real property on which it is to be constructed, which will be owned by the Authority, will be leased to the Commonwealth pursuant to the Commonwealth Lease and leased back to the Authority pursuant to the Commonwealth Sublease. The Authority will then sublease the Arena to the Arena Operator for a period not-to-exceed 29 years and 11 months (the "Arena Lease"). The Arena Lease with the Arena Operator, which has a forward effective date of August 1, 2010, has been executed. Pursuant to the Arena Lease, the Arena Operator will be responsible for all operating costs and will retain all revenues of the Arena (including, but not limited to, any revenues that may be derived from any prospective sale of the naming rights associated with the Arena). In addition, the Arena Operator will have primary responsibility for the design and construction of the new Arena.

The Pittsburgh Penguins hockey team (the "Penguins") will continue to play in Mellon Arena until the new Arena is completed. Built in 1961, Mellon Arena is America's oldest indoor building housing a major league sports team. Mellon Arena has been home to the Penguins since 1967. Additionally, it hosts various special events including concerts, ice shows, circuses and convocations throughout the year. The Penguins' lease in Mellon Arena has been extended until the completion of the new Arena. Upon completion of the new Arena, the Authority expects to redevelop the Mellon Arena site.

The Authority has acquired eleven of the properties needed for the new Arena and is currently undertaking demolition and site preparation, which is expected to be completed by the end of October, 2007. In addition, the Authority will acquire the former St. Francis Central Hospital and will demolish it and prepare the site for the Arena development. The demolition of the former St. Francis Central Medical Center is expected to begin in November, 2007.

The Authority has hired a joint venture of Oxford Development Corporation and Chester Engineers to serve as its representatives for monitoring the development and construction of the Project. HOK is expected to be the architect for the new Arena and ICON Venue Group is expected to be the Arena Operator's representative to oversee the development and construction process. The Arena Operator is expected to contract with an "at risk" construction manager (the "Construction Manager"), which contract (the "Construction Contract") will contain a guaranteed maximum price for the construction of the Arena. The construction period is estimated to be approximately 24-26 months with completion expected prior to the start of the 2010 National Hockey League season.

As the project develops, the design and scope of the new Arena may change, however, it is currently anticipated that the new Arena will have the following characteristics:

Total Seats *:	18,150
General Seating:	15,300
Club Seating:	1,600
Suites:	68 (total seats 1,050)
Loge Seats:	200

** All information is preliminary and subject to the final design of the Arena.*

Other features are expected to include: club lounges, bar/lounge/family areas, concession stands, a restaurant, a kitchen and other food preparation facilities, retail space, offices to accommodate Arena and Penguin management personnel, a ticket office, and media facilities.

On September 18, 2007 the Authority and the Arena Operator entered into a Preliminary Development Agreement (the "Preliminary Development Agreement") to outline a framework for a comprehensive final development agreement (the "New Arena Development Agreement"), including the material terms of the construction and development of the Arena. The Authority and Arena Operator are completing negotiation of the New Arena Development Agreement. If the parties fail to finally negotiate and execute the New Arena Development Agreement, either party may request the appointment of a mediator to resolve any issues under contention.

The expected \$301.5 million total project cost for the new Arena will be funded with the Bonds and \$8.5 million of Commonwealth funding. The projected uses of the \$301.5 million are: (a) \$290 million for payment of budgeted arena construction and development costs; (b) \$8.5 million payment for the purchase of additional property (the former St. Francis Central Hospital site); and (c) upon completion of the Arena, \$3 million for initial funding of a capital reserve fund to be held by the Authority outside of the Indenture for future capital repairs of the new Arena. If the guaranteed maximum price causes the expected construction and development costs of the Arena to exceed \$310 million, the Arena Operator has the right to terminate its participation in the project by terminating the Arena Lease. However, once the guaranteed maximum price is established and agreed to, any costs of the development and construction of the Arena exceeding the \$310 million must be paid by the Arena Operator pursuant to the terms of the Preliminary Development Agreement. (See "SECURITY FOR THE BONDS – Special Revenues – The Arena Lease".)

THE BONDS

General

The A Bonds and B Bonds will be dated the date of authentication and will bear interest from the date of the first authentication and delivery thereof. The Bonds will initially be issued in fully registered form in the minimum denomination of \$100,000 or any integral multiple of \$5,000 above such amount. While the Bonds are in a Weekly Rate Period, interest on the Bonds will be payable on the first Business Day of each month, commencing November 1, 2007 (each a "Weekly Rate Interest Payment Date"). The Bonds shall bear interest from the Weekly Rate Interest Payment Date to which interest has been paid next preceding the date of authentication, unless the date of authentication (i) is a Weekly Rate Interest Payment Date to which interest has been paid, in which event the Bonds shall bear interest from the date of authentication, or (ii) is on or prior to the Weekly Rate Regular Record Date for the first Weekly Rate Interest Payment Date for the Bonds, in which event such Bonds shall bear interest from the Issue Date, or (iii) is after a Weekly Rate Regular Record Date and on or before the succeeding Weekly Rate Interest Payment Date, in which event the Bonds shall bear interest from the succeeding Weekly Rate Interest Payment Date. Interest on the Bonds shall be paid on each Weekly Rate Interest Payment Date. Each Bond shall bear interest on overdue principal at the rate of 12% per annum during the period such principal is overdue. Both principal and interest shall be payable at the designated corporate trust office of the Trustee in lawful money of the United States of America. Principal of and interest payable at maturity will be payable to the owner of the Bonds at the designated trust office of the Trustee upon the surrender for cancellation of the Bonds.

Interest payable on the Bonds on any Weekly Rate Interest Payment Date shall accrue (except as otherwise provided in the paragraph immediately above) from and including the last Weekly Rate Interest Payment Date on which interest has been paid through and including the day next preceding the next Weekly Rate Interest Payment Date. The foregoing notwithstanding, no interest shall accrue on any Bonds prior to their date of initial issuance and delivery or after the maturity thereof or after the

redemption or mandatory purchase date for such Bond (provided the redemption or purchase price is paid or provided for in accordance with the provisions of the Indenture) or after the date to which such Bond is accelerated. The holder of any Bond purchased following the mandatory tender of such Bond shall be entitled to interest on such Bond accruing from such mandatory tender date.

See “REGISTRATION, TRANSFER AND EXCHANGE OF THE BONDS” and “BOOK-ENTRY ONLY SYSTEM” for a description of provisions relating to the registration, transfer and exchange of the Bonds.

Interest Rate Periods

Each Bond shall initially bear interest at the Weekly Rate, as described below. Any series of the Bonds shall operate in the same Interest Rate Period. However, the A Bonds and the B Bonds may be converted to several different interest rate modes, as provided in the Indenture.

This Official Statement provides information with respect to the Bonds while bearing interest as a Weekly Rate only. Upon conversion of the Bonds to a different interest rate mode, a new offering document will be prepared and distributed by the Authority.

Interest Payment Dates and Computation of Interest Accrual

Interest shall be payable in arrears with respect to interest on any Bond payable at the Weekly Rate (other than a Liquidity Provider Bond for which interest will be paid in accordance with the terms of the Standby Bond Purchase Agreement), on the first Business Day of each month (beginning November 1, 2007) while such Bond bears interest at a Weekly Rate. Interest at the Weekly Rate shall be computed on the basis of a 365 day or 366 day year, as the case may be, for the actual number of days elapsed.

Record Date for Interest Payments

The interest payable on any Bond in a Weekly Rate Period on any Weekly Rate Interest Payment Date will be paid to the person in whose name such Bond is registered at the close of business on the Weekly Rate Regular Record Date for such interest, which shall be the close of business of the Business Day immediately prior to the Weekly Rate Interest Payment Date with respect to Bonds in the Weekly Rate Period. Any interest not paid on the regular Weekly Rate Interest Payment Date will cease to be payable to the registered Holder on such Weekly Rate Regular Record Date, and shall be paid to the person in whose name the Bond is registered at the close of business on a Weekly Rate Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice of such Weekly Rate Special Record Date being given to Holders of the Bonds not less than 10 days prior to the Weekly Rate Special Record Date.

Method of Payment

The Bonds are available in book-entry form only. See “BOOK-ENTRY ONLY SYSTEM.” So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the owners of the Bonds mean Cede & Co. and not the beneficial owners of the Bonds.

The principal of and interest on the Bonds will be payable by the Trustee to Cede & Co.

Weekly Rate

The Weekly Rate shall be a fluctuating rate per annum determined weekly by the Remarketing Agent (initially, PNC Capital Markets LLC) while any of the Bonds is a Weekly Rate Bond, subject to the following terms and conditions:

(1) The Weekly Rate with respect to any Bond shall be determined on or before the date of initial issuance of the Bonds (the “Issue Date”) and thereafter on the last Business Day before each Thursday.

(2) Interest accrual at the Weekly Rate determined on the Issue Date shall begin on (and shall include) the Issue Date and shall continue at such Weekly Rate until (but not including) the next Thursday. Thereafter, interest accrual at the Weekly Rate shall begin on each Thursday (based on the Weekly Rate determined on the immediately preceding Wednesday or, if such Wednesday is not a Business Day, on the first Business Day preceding such Wednesday) and shall continue at such rate until (and including) the next Wednesday; provided, however, that if the Remarketing Agent fails to determine the Weekly Rate on any such determination date, the Weekly Rate for that Weekly Rate Period for the A Bonds shall be 100% of the SIFMA Municipal Index, plus 5 basis points (as defined in the Indenture.) The Weekly Rate for that Weekly Rate Period for the B Bonds shall be equal to 100% of the One-Month LIBOR Rate, plus 5 basis points (as defined in the Indenture.)

(3) The Weekly Rate with respect to an A Bond or B Bond shall be determined by the Remarketing Agent and shall be the lowest interest rate that would, in the opinion of the Remarketing Agent, result in the market value of such A Bond or B Bond being 100% of the principal amount thereof on the date of such determination, taking into account relevant market conditions and credit rating factors as they exist on such date; provided, however, that the Weekly Rate may never exceed the Maximum Rate (12% per annum or any lesser maximum interest rate, for which coverage is provided under the applicable Liquidity Facility).

(4) On each Weekly Rate determination date with respect to a Bond the Remarketing Agent shall give written notice to the Trustee, the Authority, the Insurer, the Counterparty under the Swap Agreements, as hereinafter defined, and the Bank of the Weekly Rate so determined. Upon the written request of the Holder of any Bond, the Bank or the Authority, the Remarketing Agent shall confirm the Weekly Rate then in effect. The determination of the Weekly Rate by the Remarketing Agent shall be conclusive and binding upon the Authority, the Trustee, the Remarketing Agent, the Bank, and the Holders.

Liquidity Provider Rate

Any Bonds that are purchased by the Bank pursuant to the Standby Bond Purchase Agreement (“Liquidity Provider Bonds”) shall bear interest at the Liquidity Provider Bond Rate (the “Liquidity Provider Rate”). Interest on Liquidity Provider Bonds is payable to the Bank or (if applicable) to any other Liquidity Provider Bondholder (as such term is defined in the Standby Bond Purchase Agreement), notwithstanding any provisions of the Indenture regarding the Regular Record Date or Special Record Date. Interest accrual at the Liquidity Provider Bond Rate shall begin on (and shall include) the date such Bond is purchased by the Bank pursuant to the Standby Bond Purchase Agreement and shall end on (but shall not include) the date such Bond is remarketed pursuant to the Indenture or redeemed in accordance with the Standby Bond Purchase Agreement.

Conversion of Rate Mode

All Bonds of a series shall operate in the same Interest Rate Period. The Authority may effect a conversion of the Interest Rate Period on the Bonds from a Weekly Rate at its option, subject to certain terms and conditions in the Indenture. On the Conversion Date, the Bonds subject to conversion must be purchased pursuant to the Mandatory Tender provisions of the Indenture referred to below.

In the case of such a conversion from the Weekly Mode, the Trustee shall give notice by first class mail to the Holders of the series of Weekly Rate Bonds to be converted not less than 10 days prior to the proposed Conversion Date stating (i) the proposed Conversion Date and the proposed Interest Rate Period to be effective on such date; (ii) that the applicable Bonds will be subject to mandatory tender for purchase on the Conversion Date; (iii) the conditions, if any, to the conversion pursuant to the Indenture, and the consequences of such conditions not being fulfilled pursuant to the Indenture; (iv) if the Bonds are in certificated form, information with respect to required delivery of Bond certificates and payment of the Purchase Price; and (v) the new Interest Payment Dates and Record Dates.

The Bonds are subject to Mandatory Tender on the Conversion Date. (See “THE BONDS – Mandatory Tenders.”)

Mandatory Conversion to Fixed Rate Upon Occurrence of Certain Events

The Bonds will be converted to the Fixed Rate for a Fixed Rate Period extending until the maturity date of the Bonds, unless the Insurer shall otherwise direct, upon the occurrence of any of the following events: (i) upon the failure of the Bank to purchase Bonds in accordance with the requirements of the Indenture; (ii) upon expiration or termination of the Standby Bond Purchase Agreement with no substitution of a new Standby Bond Purchase Agreement; (iii) if Bonds are held as Liquidity Provider Bonds for forty-five days or more in any twelve-month period; (iv) if twice in a twelve-month period (X) the Remarketing Agent has failed to determine the interest rate on the Bonds or (Y) sufficient funds are not available for the purchase of all tendered Bonds required to be purchased on any Purchase Date; (v) if the Bonds bear interest at the Maximum Interest Rate, or (vi) if the Authority fails to replace the Standby Bond Purchase Agreement when required pursuant to the terms of the Indenture. Any conversion to the Fixed Rate as described in this section will be on terms and at a fixed interest rate that will permit the remarketing of all then outstanding Bonds (including Liquidity Provider Bonds) at par (or, at the option of the Authority, with the prior written consent of the Insurer, at an original issue premium not in excess of 3% of the principal amount of Bonds so remarketed). If such a remarketing cannot be effected on such terms, the Bonds shall continue to bear interest at the Weekly Rate then in effect until such time as such a conversion to the Fixed Rate and related remarketing can be effected.

The Bonds are subject to Mandatory Tender on the Conversion Date. See “The Bonds – Mandatory Tenders.”

Optional Tenders

The holders of Bonds bearing interest in a Weekly Rate Period may elect to have their Bonds or portions thereof in whole multiples of Authorized Denominations (\$100,000 and whole multiples of \$5,000 in excess of \$100,000) (any tender of less than all of the holders’ Bonds shall be made in such a manner that all Bonds held by such holder after such tender are in Authorized Denominations) purchased at a purchase price equal to 100% of the principal amount of the Bonds (or portion thereof) tendered. Bonds may be tendered for purchase upon written notice of tender to the Trustee and Remarketing Agent not later than 5:00 p.m., prevailing Eastern time, on any Business Day not less than seven (7) days prior to the Purchase Date.

Any such notice of Optional Tender must be duly executed by the Bondholder and must specify (i) the principal amount of the Bond to which the notice relates and the CUSIP number of such Bond, (ii) that the Bondholder irrevocably demands purchase of such Bond (or a specified portion thereof in an amount equal to a whole multiple of \$5,000 but not less than \$100,000), (iii) the date on which such Bond (or specified portion) is to be purchased, and (iv) payment instructions with respect to the Purchase Price. The written notice of Optional Tender must be substantially as set forth in the Indenture. Upon delivery of a written notice of Optional Tender, the election to tender shall be irrevocable and binding upon such

Holder and may not be withdrawn. The Trustee shall, in its sole discretion, determine whether, with respect to any Bond, the Holder thereof shall have properly exercised the option to have his Bond purchased, and such determination shall be conclusive and binding on such Holder.

Any Bond (or portion thereof) that is subject to purchase but that is not delivered to the Trustee (i.e., an Undelivered Bond) shall nevertheless be deemed to have been tendered by the Holder thereof on the Purchase Date.

On each Purchase Date the Trustee shall pay the Purchase Price to the Holder of each Bond (or portion thereof) properly tendered for purchase. Funds for payment of the Purchase Price of such Bonds shall be drawn by the Trustee from the appropriate account within the Purchase Fund, as provided in the Indenture. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase shall be consummated.

If the Trustee is in receipt of the Purchase Price of any Undelivered Bond, such Undelivered Bond shall be deemed to have been tendered for purchase and purchased from the Holder thereof on such Purchase Date and registration thereof shall be transferred to the purchaser of such Undelivered Bond.

Anything in the Indenture to the contrary notwithstanding, Bondholders may not exercise their Optional Tender rights at any time when the obligation of the Bank to purchase Bonds pursuant to the Liquidity Facility has been suspended or terminated in accordance with the provisions of the Liquidity Facility.

Mandatory Tenders

The Holder of each Bond shall be required to tender such Bond to the Trustee for purchase on the following dates (each such date being herein called a "Mandatory Tender Date"):

- (1) the Conversion Date with respect to such Bond;
- (2) the first day after the last day of each Short-Term Interest Period;
- (3) the first day after the last day of each Long-Term Interest Period; or
- (4) the fifth day next preceding each Expiration Date (unless, prior to the fifth day next preceding that Expiration Date, that Expiration Date is extended);
- (5) each Substitution Date; and
- (6) any Termination Date.

The Trustee shall promptly give notice of mandatory tender for purchase by first-class mail to the Holders of all Bonds not less than 10 calendar days prior to the Mandatory Tender Date. Such notice of Mandatory Tender shall state that all Outstanding Bonds are subject to mandatory tender for purchase pursuant to the provisions thereof and the provisions of the Indenture and will be purchased on the Mandatory Tender Date (which date shall be set forth in such notice) by payment of a Purchase Price equal to the principal amount thereof plus accrued interest.

On the Mandatory Tender Date with respect to any Bond, the Trustee shall pay the Purchase Price to the Holder of such Bond. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase shall be consummated.

If the Trustee receives notice that an Automatic Termination Event or an Automatic Suspension Event (as such terms are defined in the Standby Bond Purchase Agreement) exists under the Standby Bond Purchase Agreement, or the Bank is otherwise no longer obligated to purchase Bonds under the purchase provisions of the Standby Bond Purchase Agreement, the Bonds shall be subject to Mandatory Tender, in accordance with the provisions for Mandatory Tender discussed herein, but the Purchase Price of Bonds so tendered will be paid only from remarketing proceeds or funds contributed by the Authority at its option. Failure to pay the Purchase Price shall not constitute a default or Event of Default on the Bonds. Payment of the Purchase Price of the Bonds is not insured by the Bond Insurance Policy (as defined below). However, the Bonds may be required to be converted to a Fixed Rate upon the failure to pay Purchase Price. See "THE BONDS - Conversion to Fixed Rate Mode Upon Occurrence of Certain Events."

Redemption Prior to Maturity

The Bonds shall be subject to redemption prior to Maturity as follows:

Mandatory Sinking Fund Redemption

The Bonds are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount redeemed plus accrued interest to the redemption date, on the dates and in the principal amounts specified in the redemption schedule set forth below:

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A Bonds		B Bonds	
Redemption Date (11/1)	Principal Amount	Redemption Date (11/1)	Principal Amount
2008	\$ 4,260,000	2010	\$ 620,000
2009	4,450,000	2011	860,000
2010	4,640,000	2012	915,000
2011	4,840,000	2013	965,000
2012	5,050,000	2014	1,020,000
2013	5,270,000	2015	1,080,000
2014	5,495,000	2016	1,140,000
2015	5,735,000	2017	1,205,000
2016	5,980,000	2018	1,275,000
2017	6,240,000	2019	1,350,000
2018	6,510,000	2020	1,425,000
2019	6,790,000	2021	1,505,000
2020	7,085,000	2022	1,595,000
2021	7,390,000	2023	1,685,000
2022	7,710,000	2024	1,780,000
2023	8,045,000	2025	1,885,000
2024	8,395,000	2026	1,990,000
2025	8,755,000	2027	2,100,000
2026	9,135,000	2028	2,225,000
2027	9,530,000	2029	2,350,000
2028	9,940,000	2030	2,485,000
2029	10,370,000	2031	2,625,000
2030	10,820,000	2032	2,775,000
2031	11,290,000	2033	2,935,000
2032	11,775,000	2034	3,100,000
2033	12,285,000	2035	3,280,000
2034	12,815,000	2036	3,465,000
2035	13,370,000	2037	3,665,000
2036	13,950,000	2038	3,870,000
2037	6,890,000	2039	4,095,000*
2038	7,190,000*		

*Final Maturity

Optional Redemption

While the Bonds are Weekly Rate Bonds, they may be redeemed by the Authority in whole at any time or in part on any Interest Payment Date, prior to maturity, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

Partial Redemption

If less than all Bonds are to be redeemed, the particular Bonds to be redeemed shall be selected by the Trustee by lot or by such other method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (in Authorized Denominations) of the principal of Bonds in a denomination larger than the smallest Authorized Denomination; provided that Liquidity Provider Bonds and Authority Bonds, in that order, shall be redeemed before other Bonds are redeemed.

Effect of Redemption

Bonds (or portions thereof as aforesaid) for which redemption and payment provision is made in accordance with the Indenture shall cease to bear interest from and after the date fixed for redemption.

Notice of Redemption

Any notice of redemption shall be given by registered or certified mail, mailed not less than 15 days prior to the redemption date, to each Holder, at his address appearing in the Register. So long as DTC is effecting book-entry transfers of the Bonds, the Trustee shall provide the notices specified under this heading only to DTC. It is expected that the DTC shall, in turn, notify its Participants and that the Participants, in turn, will notify or cause to be notified the beneficial owners. Any failure on the part of DTC or a Participant, or failure on the part of a nominee of a beneficial owner of a Bond to notify the beneficial owner of the Bond so affected, shall not affect the validity of the redemption of such Bond.

REGISTRATION, TRANSFER AND EXCHANGE OF THE BONDS

The Trustee has been appointed bond registrar and as such shall keep the bond register at its designated office. The Person in whose name any Bond shall be registered on the bond register shall be deemed and regarded as the absolute owner of such Bond for all purposes, and payment of or on account of the principal of and redemption premium, if any, and interest on any such Bond shall be made only to or upon the order of the Registered Owner thereof or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond, including the interest thereon, to the extent of the sum or sums so paid.

Any Bond may be transferred only upon the bond register upon surrender thereof to the Trustee duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney or legal representative in such form as shall be satisfactory to the Trustee. Upon any such transfer, the Authority shall execute and the Trustee shall authenticate and deliver in exchange for such Bond a new Bond or Bonds, registered in the name of the transferee, of any authorized denomination and of the same maturity and series and bearing interest at the same rate.

The Trustee may charge an amount sufficient to reimburse it for any tax, fee or other governmental charge required to be paid in connection with any such transfer, registration, conversion or exchange. The Trustee shall not be required to transfer or exchange (i) any Bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of such Bond and ending at the close of business on the day of such mailing, or (ii) any Bond so selected for redemption in whole or in part, or (iii) any Bond during a period beginning at the opening of business on any Record Date for such Bond and ending at the close of business on the relevant Interest Payment Date therefor. See also "BOOK-ENTRY ONLY SYSTEM" herein for further information regarding registration, transfer and exchange of the Bonds.

Book-Entry Only System

The Bonds are issuable only as fully registered bonds without coupons, and, when issued, will initially be registered in the name of Cede & Co., as registered owner and nominee for DTC. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in denominations of \$100,000 and any multiple of \$5,000 in excess thereof. Beneficial owners will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

USE OF PROCEEDS

The proceeds of the Bonds will be used for: (1) the acquisition, construction and equipping of a multi-purpose public auditorium and related facilities and expenditures (the "Arena"); (2) the payment of capitalized interest on the Bonds; (3) the funding of a Debt Service Reserve Fund, including payment of the premium for any debt service reserve fund surety bonds; (4) the funding of other reserve funds; and (5) the payment of certain costs incurred in connection with the issuance of the Bonds, including, but not limited to, fees related to credit enhancement and liquidity enhancement.

Sources and uses of funds related to the Bonds are estimated to be:

	<u>A Bonds</u>	<u>B Bonds</u>	<u>TOTAL</u>
Sources of Funds:			
Principal Amount of Bonds	\$ 252,000,000.00	\$ 61,265,000.00	\$ 313,265,000.00
Other	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Sources	\$ 252,000,000.00	\$ 61,265,000.00	\$ 313,265,000.00
Uses of Funds:			
Deposit to 2007 Project Fund	\$ 227,406,754.52	\$ 50,729,482.75	\$ 278,136,237.27
Deposit to Capitalized Interest Account of Project Fund	5,954,980.00	8,611,355.96	14,566,335.96
Deposit to Debt Service Reserve Fund	14,796,411.00	0.00	14,796,411.00
Deposit to Supplemental Reserve Fund	1,005,538.44	244,461.56	1,250,000.00
Deposit to Expense Fund	467,843.29	617,191.17	1,085,034.46
Municipal Bond and Swap Insurance Premium	1,102,878.63	329,791.66	1,432,670.29
Surety Bond Premium (initial policy only) ¹	0.00	172,004.35	172,004.35
Estimated Issuance Costs*	<u>1,265,594.12</u>	<u>560,712.55</u>	<u>1,826,306.67</u>
Total Uses	\$ 252,000,000.00	\$ 61,265,000.00	\$ 313,265,000.00

*Includes Underwriters' discount, financial and swap advisor, legal, printing, rating agency, Trustee and other costs.

SECURITY FOR THE BONDS

Limited Obligations

The Bonds are limited obligations of the Authority payable solely from the Trust Estate pledged under the Indenture. The Bonds are not obligations of the Commonwealth of Pennsylvania other than the Commonwealth's obligation to make any annual lease payments to the Authority under the Commonwealth Lease. However, any annual lease payments owed by the Commonwealth pursuant to the Commonwealth Lease are subject to the annual appropriation of funds for such purpose by the Pennsylvania General Assembly, and there can be no assurance that such funds will be appropriated in any fiscal year of the Commonwealth. The full faith and credit of the Commonwealth is not pledged for the payment of the Bonds. Neither the credit nor the taxing power of the City of Pittsburgh, the County of Allegheny, or any political subdivision thereof is pledged for the payment of the Bonds. The Authority has no taxing power. No mortgage on any

¹ The Authority may purchase one or more reserve fund surety bonds with respect to the A Bonds after the issuance and delivery of the Bonds.

real property or leasehold interest in, security interest in, or pledge of revenues from the operation of the Arena will be granted for the benefit of Bond Holders.

Trust Estate

Under the Indenture, the Authority has pledged to the Trustee, to the extent provided in the Indenture the following: (a) all right, title and interest of the Authority (including the right to enforce any of the terms regarding the receipt thereof) in and to the Special Revenues; (b) all right, title and interest of the Authority (including the right to enforce any of the terms regarding the receipt thereof) in and to the Swap Receipts; (c) all right, title and interest of the Authority (including the right to enforce any of the terms thereof) in, to and under the Commonwealth Lease, and all payments derived by the Authority from the Commonwealth including Lease Payments and other amounts to be received by the Authority and paid by the Commonwealth under and pursuant to and subject to the Commonwealth Lease; and (d) all moneys and securities from time to time held by the Trustee under the terms of the Indenture (other than the Rebate Fund and the Uninsured Swap Payment Fund). (See "Appendix A: "Summary of Certain Provisions of the Trust Indenture" and Appendix B: "Form of The Commonwealth Lease." herein.)

"Special Revenues" include certain rental payments expected to be received by the Authority pursuant to the Arena Lease (its sublease of the Arena to the Arena Operator), payments it expects to receive from the entity which receives a license to operate a slot machine casino in the City (the "Casino Operator"), and payments it expects to receive from the Economic Development and Tourism Fund ("Economic Development & Tourism Fund"), a fund established pursuant to Act 71 of 2004 of the Commonwealth (4 Pa. C.S.A. §1407) ("Act 71"). Payments received under the Arena Lease will not be available to pay debt service on the A Bonds, to replenish reserves allocable to the A Bonds, to pay expenses related to the A Bonds, or to make Periodic Payments to the Counterparty with respect to the portion of the Swap Agreement related to the A Bonds (as each such term is hereinafter defined). Additionally, payments received from the Casino Operator or from the Economic Development & Tourism Fund will not be available to pay debt service on the B Bonds, to replenish reserves allocable to the B Bonds, to pay expenses related to the B Bonds, or to make Periodic Payments to the Counterparty with respect to the portion of the Swap Agreement related to the B Bonds. (See "BONDHOLDERS' RISK FACTORS AND INVESTMENT CONSIDERATIONS – Availability of Special Revenues" and "APPENDIX H: Schedule of Estimated Special Revenues" herein.)

"Swap Receipts" are all amounts due and payable to the Authority by the Counterparty pursuant to the Swap Agreements. (See "INTEREST RATE SWAP AGREEMENT" herein.)

Special Revenues

The Arena Lease. The Arena Lease was executed on September 18, 2007 and has a commencement date of August 1, 2010, or such later date as shall be established pursuant to the Arena Lease. The Arena Lease obligates the Arena Operator to pay to the Authority thirty (30) annual lease payments of \$4.1 million per year, on September 25 of each year, commencing September 25, 2010 and ending on September 25, 2039. The Arena Lease further obligates the Arena Operator to pay to the Authority during each year of the lease term, an additional \$200,000 per year on September 25 of each year if certain parking facilities are delivered by the Authority to the Arena Operator (provided that the first such payment will be due within thirty days of such delivery). The delivery of the parking facility is expected to occur prior to August 25, 2011. Note, however, that if the City of Pittsburgh (the "City") increases its amusement tax above the current rate of 5%, or if the City imposes any other comparable tax, the Arena Operator may take a credit against any rent due under the Arena Lease in an amount equal to the difference between the tax actually collected by the City and the amount the Arena Operator would have paid during that period based upon the current 5% amusement tax. This credit is offset, however, by the City's payment of the difference to the Authority, pursuant to Resolution No. 195, effective April 17,

2007, which authorized the City to execute a Cooperation Agreement between the City of Pittsburgh and the Authority, that will memorialize the City's covenant to make such payments.

Prior to commencement of construction, the Arena Operator may terminate the Arena Lease if the guaranteed maximum price set forth in the Construction Contract for the construction of the Arena plus certain enumerated soft costs, predevelopment expenses, contingencies and Authority oversight expenses exceeds \$310 million; provided, however, that the Arena Operator, the Authority, the Commonwealth and the Construction Manager shall have first worked together to redesign and value engineer the design of the Arena to lower the guaranteed maximum price plus the additional enumerated items to a level not exceeding \$310 million. Pursuant to the Preliminary Development Agreement, once construction has begun, any costs in excess of the \$310 million must be paid by the Arena Operator. Apart from the obligation of the Arena Operator to make rental payments, as detailed in the paragraph above, no Arena-related operating revenues are pledged for the payment of the Bonds. The Arena Operator will have sole responsibility for operating the Arena and paying operating expenses. The expiration date of the Arena Lease is June 30, 2040. (See "PROJECT" and "BONDHOLDERS' RISK FACTORS AND INVESTMENT CONSIDERATIONS – Availability of Special Revenues, -- Construction Cost Overruns, -- Delays in Opening the Arena, and – Potential Effects of Bankruptcy" herein.)

Payments received under the Arena Lease will not be available to pay debt service on the A Bonds, to replenish reserves allocable to the A Bonds, to pay expenses related to the A Bonds, or to make Periodic Payments to the Counterparty with respect to the portion of the Swap Agreement related to the A Bonds (as each such term is hereinafter defined).

Casino Operator Agreement. Three applicants vied for the single stand-alone slots casino license for a facility to be located in the City. The Authority has received written undertakings from each of the three applicants to contribute not less than \$7.5 million per year to the costs of constructing the new Arena. The Authority expects to enter into a further implementing agreement ("Casino Operator Agreement") with the holder of the single license. In December, 2006, the Pennsylvania Gaming Control Board selected PITG Gaming, LLC to be the recipient of the license over the other two competitors. The two other applicants who were in contention for the single slots operating license in the City sued the Pennsylvania Gaming Control Board over its decision to award the license to PITG Gaming, LLC. Act 71 provides that the Supreme Court of Pennsylvania is vested with exclusive appellate jurisdiction to consider appeals of any final order, determination or decision of the Gaming Control Board with respect to the approval, issuance, denial or conditioning of a slot machine casino license. On July 18, 2007, the Supreme Court upheld the Gaming Control Board's decision to award the license to PITG Gaming, LLC.

The Casino Operator Agreement will not be in effect prior to the issuance of the Bonds. In addition, construction of the Casino has not yet begun. The Authority's current estimates suggest that a facility will not be in place prior to 2009. (See "BONDHOLDERS' RISK FACTORS AND INVESTMENT CONSIDERATIONS – Availability of Special Revenues" herein.)

Payments received from the Casino Operator will not be available to pay debt service on the B Bonds, to replenish reserves allocable to the B Bonds, to pay expenses related to the B Bonds, or to make Periodic Payments to the Counterparty with respect to the portion of the Swap Agreement related to the B Bonds.

The Economic Development & Tourism Fund. Act 71 established the Pennsylvania Gaming Control Board and authorized that Board to award various categories of slot machine licenses to operators within the Commonwealth. As of December 31, 2006, eleven licenses had been awarded. Act 71 authorizes a maximum of 14 licenses to be awarded in various locations throughout the Commonwealth. Section 1407 of Act 71 provides for the creation of the Economic Development & Tourism Fund within the State Treasury. The Economic Development & Tourism Fund is administered by the Department of

Community and Economic Development. The Economic Development & Tourism Fund was established to receive an assessment of 5% of Gross Terminal Revenue in the Commonwealth. Gross Terminal Revenue is defined as the total wagers received by all slot machines in the Commonwealth, less cash or cash equivalent payouts (that is, winnings) and less cash paid to purchase annuities to fund prizes payable to slot players. All slot operators must pay the 5% assessment on a daily basis. All moneys in the Economic Development & Tourism Fund are required to be distributed pursuant to a "subsequently enacted Economic Development Capital Budget that appropriates money from the [F]und." Act 53 of 2007, the legislation providing for the first Gaming and Economic Development and Tourism Fund Capital Budget was signed into law on July 25, 2007. The legislation provides for payments of \$7.5 million per year for thirty (30) years from the Fund (or until the Bonds are no longer outstanding) for the cost of constructing the new Arena. However, the legislation provides for the annual funding of several projects in Pennsylvania. Payments from the Economic Development and Tourism Fund for the cost of constructing the Arena and certain other projects are available only to the extent that the assessments on Gross Terminal Revenue are sufficient to fund such appropriations in the manner provided by the legislation. (See "BONDHOLDERS' RISK FACTORS AND INVESTMENT CONSIDERATIONS – Availability of Special Revenues" herein.)

Payments received from the Economic Development & Tourism Fund will not be available to pay debt service on the B Bonds, to replenish reserves allocable to the B Bonds, to pay expenses related to the B Bonds, or to make Periodic Payments to the Counterparty with respect to the portion of the Swap Agreement related to the B Bonds.

See APPENDIX H: "Schedule of Estimated Special Revenues" for a schedule of the estimated amounts of Special Revenues that the Authority expects to be available to pay debt service on the Bonds.

The Commonwealth Lease

The Commonwealth Lease is an agreement by and between the Authority and the Commonwealth, pursuant to which the Commonwealth leases the 2007 Project (as defined in the Commonwealth Lease) from the Authority. The 2007 Project includes the interests of the Authority in certain real property as identified in the Commonwealth Lease and the Arena which is to be constructed thereon.

Any rent due under the Commonwealth Lease results only from any deficiency or delay in the receipt of any portion of the expected Special Revenues, or for draws from certain reserve funds established under the Indenture, as further described herein (defined as "Rental Payment Obligations"). The rent includes, among other things, the Commonwealth's obligation to pay (i) all amounts required to be paid by the Authority to the Counterparty pursuant to the Swap Agreement, (ii) all amounts necessary to enable the Trustee to pay all interest and principal on the Bonds (including upon mandatory redemption), (iii) all amounts drawn from the Debt Service Reserve Fund and necessary to restore such Fund to the reserve requirement, (iv) all amounts necessary to reimburse the Reserve Policy Provider for any draws on the Surety Bonds, and (v) all amounts necessary to reinstate the Standby Bond Purchase Agreement for draws made to pay for unremarketed Bonds. Any such payment of Rent, however, is subject to annual appropriation by the Pennsylvania General Assembly.

The Rental Payment Obligations are absolute and unconditional and must be provided by the Commonwealth to the Trustee without notice or demand, deduction or set-off, subject, however, to annual appropriation by the General Assembly. The obligations and liabilities of the Commonwealth may not be released, reduced, discharged or otherwise affected by any reason, including, among other things: (i) any damage to or destruction of the Arena, or any party thereof; (ii) any failure of any third party to perform or comply with the terms of any agreement with respect to the Bonds to which the Commonwealth or the Authority is a party, including the Arena Lease and any Casino Operator Agreement; and (iii) any failure

of the Authority or the Trustee to perform or observe any agreement or covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Commonwealth Lease, the Sublease, the Indenture, the Liquidity Facility, the Bonds, the Reserve Policy Reimbursement Agreement or the Swap Agreement, including the Authority's obligation to complete the Project. In the event the Trustee receives any delayed payment of Special Revenues from the Authority after the Commonwealth paid a related Rental Payment Obligation, the Trustee is required to notify the Commonwealth of such event, whereupon the Commonwealth may direct the Trustee to return such Special Revenues to it, up to the cumulative dollar amount of Rental Payment Obligations previously paid by the Commonwealth.

While the Rental Payment Obligations are absolute and unconditional, they are subject to annual appropriation by the Pennsylvania General Assembly. There can be no assurance that the Commonwealth will appropriate funds in any fiscal year of the Commonwealth for such Obligations. (See "BONDHOLDERS' RISK FACTORS AND INVESTMENT CONSIDERATIONS – Failure to Appropriate" herein.)

The term of the Commonwealth Lease commences on the earlier of the effective date of the Swap Agreement or the dated date of the Bonds and continues until the later of the date that no Rental Payment Obligations are due and payable or November 2, 2039. Subject to annual appropriation by the Pennsylvania General Assembly, the obligation of the Commonwealth to pay any Rental Payment Obligations under the Commonwealth Lease shall survive the termination of the Commonwealth Lease and shall continue in full force and effect until all Rental Payment Obligations have been fully met.

Under the Commonwealth Lease, "Rental Payment Date" means August 1 of each fiscal year of the Commonwealth. The Commonwealth's fiscal year begins on July 1. Any Rental Payment Obligations paid by the Commonwealth will be made as payment for amounts due in the immediately preceding Commonwealth fiscal year. To enable the General Assembly to appropriate sufficient funds for such purpose, the Authority will notify the Commonwealth of its anticipated obligation no later than October 10 of each Commonwealth fiscal year immediately preceding the applicable Rental Payment Date, beginning with the Commonwealth's 2008 fiscal year.

The Commonwealth Lease is not a general obligation of the Commonwealth within the meaning of any constitutional or statutory provision relating to the incurrence of debt by the Commonwealth, and the Commonwealth has not pledged its full faith and credit or its taxing power for the payment of its obligation under the Commonwealth Lease. Any Commonwealth rental payments that become due are subject to annual appropriation by the General Assembly of the Commonwealth.

The Commonwealth Lease provides that no Additional Bonds may be issued under the Indenture unless: (i) the Governor approves the issuance and (ii) the Commonwealth agrees to incorporate any Rental Payment Obligations due as a result of the issuance of such Additional Bonds into an amendment of, or supplement to, the Commonwealth Lease. The Indenture provides that Additional Bonds may be issued thereunder for any purpose permitted by the Act, subject to, among other things, the approval of the Governor of the Commonwealth, and a supplemental Commonwealth Lease. (See "Appendix A: "Summary of Certain Provisions of the Trust Indenture" and "Appendix B: "Form of The Commonwealth Lease " herein.)

Certain information relating to the Commonwealth is contained in Appendix C – "Financial and Other Information Relating to the Commonwealth." As referenced in Appendix C, copies of the Commonwealth's Comprehensive Annual Financial Report are available at the Office of the Budget's web site at www.budget.state.pa.us in the Budget & Financial Reports section and from the Secretary of the Budget of the Commonwealth. In addition, the Commonwealth has filed such information with nationally recognized municipal information securities repositories. The Authority makes no

representation as to the accuracy of any information contained in, or referenced in, this Official Statement relating to the Commonwealth. Because the general credit of the Authority is not pledged to the payment of the Bonds, no financial information or operating data with respect to the Authority has been included in this Official Statement.

The Sublease

The Sublease is an agreement by and between the Commonwealth and the Authority. In order to allow the Authority to manage, control and operate the 2007 Project, the Commonwealth agrees to sublease it to the Authority. The annual rent due under the Sublease from the Authority to the Commonwealth is \$10.00 and its term is coterminous with the Commonwealth Lease.

Other payment obligations of the Authority pursuant to the Sublease include any taxes, levies and assessments due, utility charges and the like.

The provisions of the Sublease permit the Authority to enter into development agreements or operating agreements or sublet all or any part of the Arena. It is pursuant to these provisions that the Authority has entered into the Arena Lease, which is a sublease with the Arena Operator for, among other things, the use of the Arena for Penguin hockey games.

Debt Service Reserve Fund

On the date of issuance of any series of Bonds, the Authority shall direct the Trustee to fund the Debt Service Reserve Fund in an amount equal to the Reserve Requirement. The Reserve Requirement with respect to the A Bonds will initially be funded at closing by a deposit of cash in the amount of , \$14,796,411.00, which will be funded with A Bond proceeds. The Reserve Requirement with respect to the B Bonds will be satisfied with the deposit of a Reserve Fund Surety Bond valued at \$8,600,217.72, to be purchased from FSA with B Bond proceeds. Pursuant to the Indenture, the Trustee may make a draw on the Debt Service Reserve Fund in the event that there are insufficient funds in the Debt Service Fund to pay interest on, or principal of, the Bonds or to make Insured Swap Payments (as hereinafter defined) to the Counterparty. It is upon such an occurrence that rent may become due under the Commonwealth Lease.

When the Casino Operator Agreement is operative, the Authority will be entitled to replace a cash amount equal to \$7,398,205.50 on deposit in the Series A Account with a Reserve Fund Surety Bond in the amount of \$14,850,140.01, which cash amount (after deduction of the amount required to pay for the Reserve Fund Surety Bond) shall be transferred to the Series A Account of the Project Fund. At such time as the Authority has established a procedure to receive disbursements from the Economic Development and Tourism Fund, the Authority will be entitled to replace a cash amount equal to \$7,398,205.50 on deposit in the Series A Account with a Reserve Fund Surety Bond in the amount of \$14,850,140.01 which cash amount (after deduction of the amount required to pay for the Reserve Fund Surety Bond) will be transferred to the Series A Account of the Project Fund. FSA has provided forward commitments to provide, subject to certain conditions in the commitments, one or more debt service reserve fund surety bonds for such purposes.

Any replacement of cash for a Reserve Fund Surety Bond will be done by the delivery by the Authority to the Surety Bond Provider and FSA (with a copy to the Trustee), of a certificate that certifies that the requirements described above have been satisfied. Each Reserve Fund Surety Bond shall be in an amount sufficient to meet its allocable portion of the Reserve Requirement and will be approved by the Insurer.

Supplemental Reserve Fund

The Indenture creates a Supplemental Reserve Fund and within the Supplemental Reserve Fund, a Series A Account, that will initially be funded in the amount of \$1,055,538.44 from proceeds of the A Bonds, and a Series B Account that will initially be funded in the amount of \$244,461.56 from the proceeds of the B Bonds. The amount on deposit in the Series A Account of the Supplemental Reserve Fund will be maintained at not less than \$804,430.75 and the amount on deposit in the Series B Account of the Supplemental Reserve Fund will be maintained at not less than \$195,569.25 (the "Special Reserve Requirement"). The Special Reserve Requirement may be reduced with the consent of the Bond Insurer. On May 4 of each year, the Trustee is required to transfer amounts from the Series A Swap Revenue Account and the Series B Swap Revenue Account in the Revenue Fund into the Series A Account and the Series B Account, respectively, in the Supplemental Reserve Fund, and shall also make any transfer from the Special Revenue Accounts to the appropriate account of the Supplemental Reserve Fund. Money held in the Series A Account of the Supplemental Reserve Fund is to be used to replenish any deficiency in the Series A Account or the Series A Insured Payment Account in the Debt Service Fund and Tax-Exempt Account in the Debt Service Reserve Fund. Money held in the Series B Account in the Supplemental Reserve Fund is to be used to replenish any deficiency in the Series B Account or the Series B Insured Swap Payment Account in the Debt Service Fund and the Taxable Account in the Debt Service Reserve Fund. In the event that there is ever a deficiency in the Supplemental Reserve Fund, the Trustee is required to make up such deficiency by a transfer first from the applicable account of the Project Fund, subject to certain conditions, and second from the Commonwealth Lease Revenue Account. It is upon such an occurrence that rent may become due under the Commonwealth Lease.

STANDBY BOND PURCHASE AGREEMENT

General

The purchase price of Bonds which are tendered or deemed tendered for purchase will be payable, to the extent that remarketing proceeds are not sufficient therefor, from funds made available by the Bank pursuant to the Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement will provide liquidity for the purchase of those Bonds which are optionally tendered for purchase or are subject to mandatory purchase, but not remarketed by the Remarketing Agent. The Standby Bond Purchase Agreement is scheduled to expire on May 1, 2017, but may terminate earlier upon the occurrence of certain Events of Default described below. The enforceability of the Standby Bond Purchase Agreement may be limited by the bankruptcy, insolvency or reorganization of the Bank. No assurances can be given that in such event the obligations of the Bank under the Standby Bond Purchase Agreement would survive.

For purposes of this section and as otherwise used in this Official Statement, the following terms have the meanings ascribed to them:

"Liquidity Provider Bond" means each Bond held by a Liquidity Provider Bondholder. "Liquidity Provider Bondholder" means the Bank and any other Person to whom the Bank has sold Liquidity Provider Bonds pursuant to the Standby Bond Purchase Agreement (or the Insurer, to the extent of payments made on Liquidity Provider Bonds under the Bond Insurance Policy).

"Default" means the occurrence of any event which, with the passage of time, the giving of notice, or both, would become an Event of Default (as defined below).

"Eligible Bonds" means any Bonds bearing interest at a Weekly Rate other than Bonds owned by, for the account of, or on behalf of the Authority.

“Insurer Adverse Change” occurs when the financial strength ratings assigned to the Insurer by Moody’s, Standard & Poor’s and Fitch Ratings, Inc., shall fall below “Aa3”, “AA-” and “AA-”, respectively, and such financial strength ratings shall remain below “Aa3”, “AA-” and “AA-”, respectively, for a period of 90 consecutive days.

"Investment Grade" means the financial strength ratings assigned by Moody's, Standard & Poor's and Fitch Ratings, Inc. of "Baa", BBB-" or "BBB" respectively (except as provided, all without regard to numeric or other modifiers).

“Related Documents” means the Standby Bond Purchase Agreement, the Indenture, the Bonds, the Official Statement, the Purchase Contract, the Bond Insurance Policy, the Custody Agreement and the Remarketing Agreement, as the same may be amended or modified from time to time in accordance with their respective terms and the terms of the Standby Bond Purchase Agreement.

Purchase of Tendered Bonds by the Bank

From time to time during the period prior to the expiration or earlier termination of the Standby Bond Purchase Agreement (the “Purchase Period”), subject to the conditions set forth in the Standby Bond Purchase Agreement, the Bank will purchase Bonds in the Weekly Mode that have been optionally tendered for purchase pursuant to the Indenture, but not remarketed, or which are tendered pursuant to a mandatory tender under the Indenture, upon receipt of an appropriate notice from the Trustee pursuant to the Indenture and the Standby Bond Purchase Agreement on the date specified for purchase (the “Purchase Date”). See “THE BONDS – Optional Tenders” and “- Mandatory Tenders.” The price to be paid by the Bank for such Bonds will be equal to the aggregate principal amount of such tendered Bonds, plus interest accrued thereon to the date of such purchase calculated at the applicable interest rate for the Bonds. The Bank’s commitment with respect to interest shall be equal to 34 days’ interest on the principal amount of Bonds outstanding (assuming an interest rate of 12% per annum calculated on the basis of a year of 365 days).

UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW, THE OBLIGATION OF THE BANK TO PURCHASE BONDS OPTIONALLY TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE AUTOMATICALLY TERMINATED OR SUSPENDED WITHOUT PRIOR NOTICE TO ANY PERSON, INCLUDING HOLDERS OF THE BONDS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE BONDS SUBJECT TO MANDATORY PURCHASE. THE INSURANCE POLICY DOES NOT INSURE PAYMENT OF THE PURCHASE PRICE OF THE BONDS. FAILURE TO PAY THE PURCHASE PRICE OF TENDERED BONDS IS NOT AN EVENT OF DEFAULT UNDER THE INDENTURE.

Events of Default and Remedies

Each of the following events constitutes an “Event of Default” under the Standby Bond Purchase Agreement:

(a) (i) Any principal or interest due on any Bond is not paid by the Authority when due and such principal or interest is not paid by the Insurer when, as, and in the amounts required to be paid pursuant to the terms of the Bond Insurance Policy or (ii) the Insurer defaults in any payment of amounts payable by it when due under any bond insurance policy (other than the Bond Insurance Policy) with respect to publicly-rated debt representing an obligation of the Insurer on a parity with or senior to the Insurer’s obligations under the Bond Insurance Policy, and such default continues for a period of seven (7) days (except, for purposes of clause (ii), it will not be a default if the Insurer is contesting in good faith its liability under such policy or policies in light of the claim or claims made thereunder); or

(b) (i) The President or any Executive Vice President of the Insurer claims, in writing, that the Bond Insurance Policy, with respect to the payment of principal of or interest on the Bonds, is not valid and binding on the Insurer in accordance with its terms, or repudiates the obligations of the Insurer under the Bond Insurance Policy with respect to the payment of principal of and interest on the Bonds, or denies that the Insurer has any or further liability or obligation under the Bond Insurance Policy to the extent set forth in the Bond Insurance Policy, (ii) any material provision relating to payment of principal of or interest on the Bonds under the Bond Insurance Policy at any time for any reason ceases to be valid and binding on the Insurer in accordance with the terms of the Bond Insurance Policy or is declared to be null and void by a court or other governmental agency of appropriate jurisdiction, or (iii) the validity or enforceability of the Bond Insurance Policy with respect to payment of principal of or interest on the Bonds is contested by the Insurer; or

(c) (i) A proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding is not terminated for a period of sixty (60) consecutive days after commencement or such court enters an order granting the relief sought in such proceeding; (ii) the Insurer institutes or takes any corporate action for the purpose of instituting any such proceeding; or (iii) the Insurer becomes insolvent or unable to pay its debts as they mature or claims under any of its insurance policies as such claims are made, commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, consents to the entry of an order for relief in an involuntary case under any such law or consents to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Insurer or for any substantial part of its property, or makes a general assignment for the benefit of creditors, or fails generally to pay its debts or claims as they become due, or takes any corporate action in furtherance of any of the foregoing; provided, however, that the Insurer's failure to make payments on any debt or financial guaranty insurance policies or surety bonds because of a legitimate dispute between the Insurer and a creditor or the beneficiary of such policies or surety bonds will not in and of itself constitute a failure of the Insurer to generally pay its debts or claims as they become due; or

(d) The financial strength rating assigned to the Insurer by each Rating Agency, then rating the Bonds falls below Investment Grade at any time; or

(e) Any representation or warranty made by the Authority under or in connection with the Standby Bond Purchase Agreement or any of the Related Documents proves to be untrue in any material respect on the date as of which it was made; or

(f) Nonpayment of any fees or other amounts payable under the Standby Bond Purchase Agreement within fifteen (15) Business Days after the Authority and the Insurer have received notice from the Bank that the same were not paid when due; or

(g) Nonpayment of any other fees, or other amounts when due under the Standby Bond Purchase Agreement, if such failure to pay when due continues for fifteen (15) Business Days after written notice thereof to the Authority by the Bank; or

(h) The breach by the Authority of any of the other terms or provisions of the Standby Bond Purchase Agreement which are not remedied within thirty (30) days after written notice thereof has been received by the Authority from the Bank; provided however that there will be no 30-day cure period for a failure to observe or perform certain covenants and agreements made by the Authority and set forth in the Standby Bond Purchase Agreement; or

(i) Any material provision of the Standby Bond Purchase Agreement or any Related Document (other than the Bond Insurance Policy) at any time for any reason ceases to be valid and binding on the Authority or the then current Remarketing Agent, as applicable, or is declared to be null and void, or the validity or enforceability thereof is contested by the Authority or the then current Remarketing Agent, as applicable, or by any Governmental Authority having jurisdiction, or the Authority or the then current Remarketing Agent, as applicable, denies that it has any or further liability or obligation under any such document and the occurrence of such event would have a material adverse effect on the security for the Bonds or the Authority's ability to pay its obligations under the Standby Bond Purchase Agreement or the Liquidity Provider Bonds; or

(j) The occurrence of an "event of default" as defined in the Indenture or any "event of default" which is not cured within any applicable cure period under any of the Related Documents and which, if not cured, could give rise to remedies available thereunder (regardless of any waiver thereof by any person other than the Bank); or

(k) (i) The Authority's commencement of any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Authority's making a general assignment for the benefit of its creditors; or (ii) there is commenced against the Authority, any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there is commenced against the Authority, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which is not vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Authority takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the Authority is generally not paying its debts, or is unable to, or so admits in writing its inability to, pay its debts; or

(l) Nonpayment of principal and interest due (whether by scheduled maturity, required prepayment, demand or otherwise) on any bonds or other obligations payable by the Authority from the Trust Estate.

If any Event of Default occurs and is continuing under the Standby Bond Purchase Agreement, the following remedies are available to the Bank:

(a) In the case of an Automatic Suspension Event (described in paragraphs (b) and (c)(i) under "Events of Default" above), the Bank's obligation to purchase Bonds will immediately be suspended without notice or demand to any person, and thereafter, the Bank will be under no obligation to purchase Bonds until its obligation to purchase Bonds is reinstated as described below. Promptly upon an Event of Default specified in paragraph (b) above or a Default specified in paragraph (c)(i) above, the Bank will notify the Authority, the Trustee, the Insurer and the Remarketing Agent of such suspension in writing. With respect to an Event of Default specified in paragraph (b) above, if (i) a court with jurisdiction to rule on the validity of the Bond Insurance Policy thereafter enters a final, nonappealable judgment that the Bond Insurance Policy is not valid and binding on the Insurer or (ii) a period of two years elapses since the commencement of the suspension under the Standby Bond Purchase Agreement, then the obligation of the Bank under the Standby Bond Purchase Agreement will immediately terminate and the Bank will be under no further obligation to purchase Bonds (a "7.1(b) Final Suspension Event").

With respect to a Default specified in paragraph (c)(i) above, if such Default becomes an Event of Default, then the obligation of the Bank under the Standby Bond Purchase Agreement will immediately terminate and the Bank will be under no further obligation to purchase Bonds (together with a 7.1(b) Final Suspension Event, a “Final Suspension Event”). If with respect to an Event of Default under paragraph (b) above, a court with jurisdiction to rule on the validity of the Bond Insurance Policy finds or rules that the Bond Insurance Policy is valid and binding on the Insurer or if the proceeding triggering an Event of Default under paragraph (c)(i) above is terminated on or prior to the end of the 60-day period, then upon such ruling or termination, as applicable, the Bank’s obligation under the Standby Bond Purchase Agreement will be automatically reinstated and the terms of the Standby Bond Purchase Agreement will continue in full force and effect as if there had been no such suspension.

(b) In the case of an Automatic Termination Event (described in paragraphs (a), (c)(ii), (c)(iii), and (d) under “Events of Default” above), the Available Commitment and the obligation of the Bank to advance funds for the purchase of Eligible Bonds will immediately terminate without notice or demand to any Person, and thereafter the Bank will be under no obligation to advance funds for the purchase of Bonds. Promptly after the occurrence of an Automatic Termination Event, the Bank will give written notice of same to the Trustee, the Insurer, the Authority, the Counterparty, and the Remarketing Agent; provided, that the Bank will incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the termination of the Bank’s Available Commitment and of its obligation to advance funds for the purchase of Bonds pursuant to the Standby Bond Purchase Agreement.

(c) In the case of an Event of Default specified in paragraph (f) above or an Insurer Adverse Change, the Bank may terminate its obligation to advance funds for the purchase of Eligible Bonds by giving written notice (a “Notice of Termination”) to the Authority, the Trustee, the Counterparty, the Remarketing Agent and the Insurer, specifying the date on which the Available Commitment and the obligation of the Bank to advance funds for the purchase of Eligible Bonds will terminate (the “Noticed Termination Date”), which will be not less than twenty-five (25) days from the date of receipt of such notice by the Trustee and, on and after the Noticed Termination Date the Bank will be under no further obligation to purchase Bonds under the Standby Bond Purchase Agreement other than Bonds which are the subject of the mandatory tender pursuant to the Indenture, which the Bank will be required to purchase on or prior to the Noticed Termination Date.

(d) In addition to the rights and remedies set forth above, upon the occurrence of any Event of Default, the Bank will have all the rights and remedies available to it under the Standby Bond Purchase Agreement, the Related Documents or otherwise pursuant to law or equity, provided, however, that the Bank will not have the right to terminate its obligation to purchase Bonds, to declare any amount due under the Standby Bond Purchase Agreement due and payable, or to accelerate the maturity date of any Bonds except as described above. Without limiting the generality of the foregoing, the Bank has agreed that, so long as no Automatic Suspension Event or Automatic Termination Event has occurred, to purchase Bonds on the terms and conditions of the Standby Bond Purchase Agreement notwithstanding the institution or pendency of any bankruptcy, insolvency or similar proceeding with respect to the Authority. The Bank will not assert as a defense to its obligation to purchase Bonds under the Standby Bond Purchase Agreement (i) the institution or pendency of a bankruptcy, insolvency or similar proceeding with respect to the Authority or (ii) a determination by a court of competent jurisdiction in a bankruptcy, insolvency or similar proceeding with respect to the Authority that the Standby Bond Purchase Agreement is not enforceable against the Authority under applicable bankruptcy, insolvency or similar laws.

Extension, Reduction, Adjustment or Termination of the Standby Bond Purchase Agreement

Upon any redemption, repayment or other payment of all or any portion of the principal amount of the Bonds, the Bank's purchase commitment under the Standby Bond Purchase Agreement with respect to principal of Bonds shall automatically be reduced by the principal amount of the Bonds so redeemed, repaid or otherwise paid, as the case may be.

The renewal or extension of the Standby Bond Purchase Agreement is subject to agreement by the Bank and the Authority. The Bank has no obligation to extend or renew the Standby Bond Purchase Agreement beyond its initial term and may determine whether to extend or renew the Standby Bond Purchase Agreement in its sole discretion. The Authority has the right under certain circumstances to terminate the Standby Bond Purchase Agreement.

Substitute Liquidity Facility Agreement

The Indenture provides that, with the approval of the Insurer, a Substitute Liquidity Facility may be substituted for the existing Standby Bond Purchase Agreement. The Bonds are subject to Mandatory Tender on the date of delivery of a Substitute Liquidity Facility. Notice of any such Mandatory Tender shall be given by the Trustee by registered or certified mail, mailed to the Holder of each affected Bond not less than 15 days prior to the Mandatory Tender Date. See "THE BONDS – Mandatory Tenders."

In event that the short-term rating of the Bonds is downgraded to below "VMIG-2" by Moody's or "A-1" by Standard & Poor's (or then-equivalent short-term ratings from either such Rating Service or other Rating Service then maintaining a short-term rating on the Bonds), the Authority will provide for delivery of a Substitute Liquidity Facility.

THE BANK

This summary incorporates by reference certain Call Reports of PNC Bank, National Association ("PNC Bank") filed with the Office of the Comptroller of the Currency ("OCC"), and certain reports of its ultimate parent, The PNC Financial Services Group, Inc. ("PNC Financial"), filed with the Securities and Exchange Commission ("SEC"). You should read these reports and the information set forth below under the headings "PNC Bank and PNC Financial" and "Supervision and Regulation." You should also understand that, except to the limited extent described herein, this summary does not describe the business or analyze the condition, financial or otherwise, of PNC Bank or otherwise describe any risks associated with PNC Bank or the Swap Agreements or Standby Bond Purchase Agreement. You must rely on your own knowledge, investigation and examination of PNC Bank and PNC Bank's creditworthiness. Neither PNC Bank nor PNC Financial makes any representation regarding the Bonds or the advisability of investing in the Bonds, nor do they make any representation regarding, nor has PNC Bank or PNC Financial participated in the preparation of, any document of which this summary is a part other than the information supplied by PNC Bank or PNC Financial and presented in this summary headed "THE BANK."

PNC Bank and PNC Financial

PNC Bank is a national banking association with its principal office in Pittsburgh, Pennsylvania. PNC Bank's origins as a national bank date to 1865. PNC Bank and its subsidiaries offer a wide range of commercial banking, retail banking, and trust and wealth management services to their customers. PNC Bank's business is subject to examination and regulation by federal banking authorities. Its primary federal bank regulator is the OCC and its deposits are insured by the Federal Deposit Insurance

Corporation. PNC Bank is a wholly-owned indirect subsidiary of PNC Financial, a Pennsylvania corporation, and is PNC Financial's principal bank subsidiary. At June 30, 2007, PNC Bank had total consolidated assets representing approximately 75% of PNC Financial's consolidated assets.

PNC Financial was incorporated under the laws of the Commonwealth of Pennsylvania in 1983 with the consolidation of Pittsburgh National Corporation and Provident National Corporation. Since 1983, PNC Financial has diversified its geographic presence, business mix and product capabilities through internal growth, strategic bank and non-bank acquisitions and equity investments, and the formation of various non-banking subsidiaries. PNC Financial is one of the largest diversified financial services companies in the United States based on assets, with businesses engaged in retail banking, corporate and institutional banking, asset management, and global fund processing services. PNC Financial provides many of its products and services nationally and others in PNC Financial's primary geographic markets located in Pennsylvania, New Jersey, Washington, D.C., Maryland, Virginia, Ohio, Kentucky, and Delaware. PNC Financial also provides certain global fund processing services internationally.

On March 2, 2007, PNC Financial completed its acquisition of Mercantile Bankshares Corporation ("Mercantile"). Mercantile has added banking and investment and wealth management services through 235 branches in Maryland, Virginia, the District of Columbia, Delaware and Southeastern Pennsylvania. Mercantile merged into PNC Financial at closing, and PNC Financial intends to merge Mercantile's banking affiliates into PNC Bank later in 2007. PNC Financial's acquisition of Mercantile added approximately \$21 billion of assets to PNC Financial's consolidated balance sheet, including \$12.4 billion of loans, \$4.3 billion of goodwill, and \$3.0 billion of available for sale and trading securities. In addition, PNC Financial added \$12.5 billion of deposits and \$2.1 billion of borrowed funds in connection with this acquisition.

On June 6, 2007, PNC Financial entered into a definitive agreement to acquire Yardville National Bancorp, a commercial and consumer banking company based in Hamilton, N.J. with approximately \$2.6 billion in assets, \$2.0 billion in deposits, and 33 branches in central New Jersey and eastern Pennsylvania. On July 19, 2007, PNC Financial entered into a definitive agreement to acquire Sterling Financial Corporation, a banking and financial services company based in Lancaster, PA with approximately \$3.3 billion in assets, \$2.6 billion in deposits, and 67 branches in Pennsylvania, Maryland and Delaware. Both acquisitions are subject to customary closing conditions, including regulatory approvals and approvals of the selling companies' shareholders.

At June 30, 2007, PNC Financial had consolidated total assets, deposits, and shareholders' equity of \$125.7 billion, \$77.2 billion, and \$14.5 billion, respectively. At December 31, 2006, the comparable amounts were \$101.8 billion, \$66.3 billion, and \$10.8 billion, respectively. At June 30, 2007, PNC Bank had total assets of \$93.8 billion, total loans (net of unearned income) and loans held for sale of \$53.5 billion, total deposits of \$64.2 billion, and total equity capital of \$6.6 billion. The comparable amounts at December 31, 2006 were \$90.1 billion, \$50.2 billion, \$65.3 billion, and \$6.8 billion, respectively.

THE STANDBY BOND PURCHASE AGREEMENT AND SWAP AGREEMENTS ARE SOLELY OBLIGATIONS OF PNC BANK AND NEITHER IS AN OBLIGATION OF, NOR GUARANTEED BY, PNC FINANCIAL OR ANY OF ITS OTHER AFFILIATES.

Supervision and Regulation

PNC Financial is a bank and financial holding company and is subject to numerous governmental regulations involving both its business and organization. Its businesses are subject to regulation by multiple bank regulatory bodies as well as multiple securities industry regulators. Applicable laws and regulations restrict PNC Financial's ability to repurchase stock or to receive dividends from bank subsidiaries and impose capital adequacy requirements. They also restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund

and other customers, and for the protection of customer information, among other things. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions as well as damage to the company's reputation and business.

In addition, PNC Financial and PNC Bank are subject to comprehensive examination and supervision by banking and other regulatory bodies. Examination reports and ratings (which often are not publicly available) and other aspects of this supervisory framework can materially impact the conduct, growth, and profitability of the company's businesses. Over the last several years, there has been an increasing regulatory focus on compliance with anti-money laundering laws and regulations, resulting in, among other things, several significant publicly-announced enforcement actions. There has also been a heightened focus recently, by customers and the media as well as by regulators, on the protection of confidential customer information. A failure to have adequate procedures to comply with anti-money laundering laws and regulations or to protect the confidentiality of customer information could expose the company to damages, fines and regulatory penalties, which could be significant, and could also injure the company's reputation with customers and others with whom it does business.

You will find a general discussion of some of the elements of the regulatory framework affecting PNC Financial and PNC Bank as well as a discussion of the key risk factors that affect PNC Financial in the following sections of PNC Financial's 2006 annual report on Form 10-K: the "Supervision and Regulation" section included in Item 1; Item 1A – Risk Factors; and Note 4 Regulatory Matters of the Notes To Consolidated Financial Statements included in Item 8 of that Report.

Incorporation of Certain Documents by Reference

PNC Bank submits quarterly to the OCC certain reports called "Consolidated Reports of Condition and Income" ("Call Reports"). Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules as of and for the period to which the report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. Because of the special supervisory, regulatory and economic policy needs served by these Call Reports, those regulatory instructions do not in all cases follow accounting principles generally accepted in the United States, including the opinions and statements of the Accounting Principles Board or the FASB ("U.S. GAAP"). While the Call Reports are supervisory and regulatory documents, not primarily financial accounting documents, and do not provide a complete range of financial disclosure about PNC Bank, the reports nevertheless provide important information concerning the financial condition of PNC Bank.

The publicly available portions of the Call Reports are on file with, and publicly available on written request to, the FDIC, Public Information Center, 801 17th Street, NW, Room 100, Washington, D.C. 20434, or by calling the FDIC Public Information Center at 877-275-3342 or 202-416-6940. The Call Reports are also available by accessing the FDIC's website at <http://www.fdic.gov>.

PNC Financial is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act"), and in accordance with the Exchange Act, PNC Financial files annual, quarterly and current reports, proxy statements, and other information with the SEC relating to PNC Financial's business, financial condition, supervision and regulation, and otherwise. PNC Financial's SEC File Number is 001-09718. You may read and copy any document PNC Financial files with the SEC at the SEC's Public Reference Room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also obtain copies of this information by mail from the public reference section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates.

The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, like PNC Financial, who file electronically with the SEC. The address of that website is <http://www.sec.gov>.

The publicly-available portions of PNC Bank's Call Reports for the years ended December 31, 2006, 2005, and 2004 and the quarters ended March 31, 2007 and June 30, 2007, and of any amendments or supplements thereto, as filed by PNC Bank with the OCC, are incorporated herein by reference. The publicly-available portions of each Call Report, and of any amendments or supplements to Call Reports, subsequently filed with the OCC prior to the expiration of the Letter of Credit are incorporated herein by reference and will be deemed a part hereof from the date of filing of each such document. Subsequently filed reports, and amendments or supplements to reports, will automatically update and supersede prior information.

In addition to the Call Reports referred to above, PNC Bank incorporates herein by reference the following documents: PNC Financial's Annual Report on Form 10-K for the year ended December 31, 2006; Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007; Current Reports on Form 8-K (by date of earliest event reported) dated January 4, 2007 (filed January 10, 2007), dated and filed January 24, 2007 as to Item 8.01 and Item 9.01, Exhibit 23.1 thereof, dated February 1, 2007 (filed February 2, 2007), dated February 8, 2007 (filed February 9, 2007), dated February 13, 2007 (filed February 20, 2007), dated February 28, 2007 (filed March 6, 2007), dated March 2, 2007 (filed March 8, 2007), dated March 22, 2007 (filed March 28, 2007), dated March 29, 2007 (filed March 30, 2007), dated April 24, 2007 (filed April 30, 2007), dated June 11, 2007 (filed June 14, 2007), dated June 12, 2007 (filed June 13, 2007), dated June 28, 2007 (filed July 3, 2007), dated August 10, 2007 (filed August 13, 2007) as to Item 8.01 thereof, and amendment on Form 8-K/A to current report dated November 15, 2006 (filed March 7, 2007); and any amendments or supplements to those reports.

Each other annual, quarterly and current report, and any amendments or supplements thereto, filed by PNC Financial with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act after December 31, 2006 and prior to the expiration of the Letter of Credit is incorporated herein by reference and will be deemed a part hereof from the date of filing of each such document. Subsequently filed reports, and amendments or supplements to reports, will automatically update and supersede prior information. The information incorporated by reference herein does not include any report, document or portion thereof that PNC Financial furnishes to, but does not file with, the SEC.

Neither the delivery of this document nor the sale of any Bonds will imply that the information herein or in any document incorporated by reference is correct as of any time after its date. Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes hereof to the extent that a statement contained therein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part hereof.

Any of the above documents incorporated herein by reference (other than exhibits to such documents unless such exhibits are specifically incorporated by reference into such documents) are available upon request by holders of the Bonds or by prospective investors in the Bonds without charge: (1) in the case of PNC Bank documents, by written request addressed to Patricia J. Jablonski, Manager of Regulatory Reporting, at The PNC Financial Services Group, Inc., One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707; or (2) in the case of PNC Financial documents, (a) for copies without exhibits, upon written request addressed to Computershare Investor Services, LLC, 250 Royall Street, Canton, MA 02021 or via e-mail at web.queries@computershare.com, or by calling 800-982-7652, and (b) for exhibits, by contacting Shareholder Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com.

INTEREST RATE SWAP AGREEMENT

In connection with the issuance of the Bonds, the Authority has entered into an International Swaps and Derivatives Association (ISDA) Master Agreement, together with supporting schedules and confirmations (each a Swap Agreement, and collectively, the “Swap Agreements”), with PNC Bank, National Association (the “Counterparty”). In each of the initial Swap Agreements entered into relative to the Bonds, the Authority will pay to the Counterparty periodic fixed amounts based on a fixed percentage of the notional amounts of each Swap Agreement. With respect to the A Bonds, the Counterparty will pay to the Authority periodic floating amounts (“Periodic Payments”) based on the Securities Industry and Financial Market Association (“SIFMA”) Municipal Swap Index until November 1, 2038, and with respect to the B Bonds, based on a LIBOR (defined below) based rate until November 1, 2039, in each case unless earlier terminated. The initial notional amount of the Swap Agreement related to the A Bonds is \$252,000,000 (the principal amount of the A Bonds), and the initial notional amount is \$61,265,000 (the principal amount of the B Bonds) for the Swap Agreement related to the B Bonds. The LIBOR based rate will be the London Interbank Offered Rate (“LIBOR”) for a specified maturity. The execution and delivery of the Swap Agreements will not alter the Authority’s obligation to pay the principal of, premium, if any, and interest on the A Bonds or B Bonds. However, the obligations of the Authority to make Periodic Payments (but not a Settlement Amount (defined below) payable under the Swap Agreements) will be secured on parity with the Authority’s obligations to make payments on the A Bonds and the B Bonds and other Bonds issued under the Indenture.

Under certain circumstances (including certain events of default with respect to the Authority or the Counterparty), the Swap Agreements could terminate in whole or in part prior to their stated termination dates. Following any such early termination of the Swap Agreements, either the Authority or the Counterparty, as applicable, may owe a termination payment (“Settlement Amount”) to the other, depending upon market conditions. If at the time of an early termination of the Swap Agreement long-term interest rates are significantly lower than they were when the Swap Agreements were executed and delivered, the Authority could owe a substantial Settlement Amount to the Counterparty. The Authority’s obligation to pay any Settlement Amount will be subordinate to the Authority’s obligation to make all payments due and owing on the Bonds and Periodic Payments due under the Swap Agreements.

The Authority’s payment obligation with respect to Periodic Payments, but not any Settlement Amount, under the Swap Agreements will be guaranteed by FSA under a swap insurance policy. As such, FSA will be given certain rights under the Swap Agreements, including certain rights to consent to the designation of an early termination date (which may result in the payment of a Settlement Amount) upon the occurrence of certain events and the right to designate an early termination date with respect to the Authority, if an event of default under the Swap Agreements occurs with the Authority as the defaulting party.

There are a number of risks associated with the Swap Agreements that could affect the value of the Swap Agreements, the ability of the Authority to accomplish its objectives in entering into the Swap Agreements and the ability of the Authority to meet its obligations under the Swap Agreements and with respect to the Bonds. These risks include, among others, the following: counterparty risk – the failure of the Counterparty to make required payments; credit risk – the occurrence of an event modifying the credit rating of the Authority or the Counterparty; termination risk – the requirement to terminate the transaction in a market that dictates a payment of a Settlement Amount by the Authority; and basis risk – the mismatch between actual variable rate debt service on the Bonds and variable rate indices used to determine swap payments by the Counterparty to the Authority. This is not a complete list of the risks associated with the Swap Agreements. Purchasers of the Bonds should consult with their own advisors to ascertain such risks.

The Authority will actively monitor the degree of risk and exposure associated with Swap Agreements to which it is a party but can offer no assurances that such monitoring will prevent the Authority from suffering adverse financial consequences as a result of these transactions.

BONDHOLDERS' RISK FACTORS AND INVESTMENT CONSIDERATIONS

The Bonds are limited obligations of the Authority payable solely from the Trust Estate pledged under the Indenture. The Bonds are not obligations of the Commonwealth of Pennsylvania, other than the Commonwealth's obligation to make any annual lease payments to the Authority under the Commonwealth Lease. Rent due under the Commonwealth Lease, if any, results from a deficiency or delay in the receipt of any portion of the expected Special Revenues or for draws from certain reserve funds established under the Indenture. However, any annual lease payments owed by the Commonwealth pursuant to the Commonwealth Lease are subject to the annual appropriation of funds for such purpose by the Pennsylvania General Assembly, and there can be no assurance that such funds will be appropriated in any fiscal year of the Commonwealth. The full faith and credit of the Commonwealth is not pledged for the payment of the Bonds. Neither the credit nor the taxing power of the City of Pittsburgh, the County of Allegheny, or any political subdivision thereof is pledged for the payment of the Bonds. The Authority has no taxing power. The Bonds may not be suitable for all investors. An investment in the Bonds involves certain risks of nonpayment of interest or principal to owners of the Bonds. Prospective purchasers of the Bonds should give careful consideration to the matters referred to in the following summary of risks as well as to other information set forth in this Official Statement. The following summary of Bondholders' Risks and Investment Considerations, however, should not be considered an exhaustive discussion of all aspects of economics and law which may affect the Authority and its payment of the Bonds, but rather is intended for informational purposes only.

THE PURCHASE OF THE BONDS IS SUBJECT TO CERTAIN RISKS. EACH PROSPECTIVE INVESTOR IN THE BONDS IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY, INCLUDING ALL APPENDICES HERETO. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW THAT, AMONG OTHERS, COULD AFFECT THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS AND THAT COULD ALSO AFFECT THE MARKET PRICE OF THE BONDS TO AN EXTENT THAT CANNOT BE DETERMINED.

Forward Looking Statements

This Official Statement, particularly the information contained under the captions "The Project," "Security for the Bonds" and "APPENDIX H: Schedule of Estimated Special Revenues", contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect," and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements.

Failure to Appropriate

If there is any shortfall, deficiency or delay in the availability of the expected Special Revenues, a primary source of security for payment of the Bonds is the Commonwealth's payment of Rental Payment Obligations. Any Rental Payment Obligations that are payable from Commonwealth funds will be budgeted and appropriated therefor by the General Assembly in each successive fiscal year. The General Assembly is not obligated under the Commonwealth Lease to make any appropriation, or to make a sufficient appropriation, to pay Rental Payment Obligations in any Fiscal Year. A failure to appropriate

amounts sufficient to pay all Rental Payment Obligations due during the next ensuing Fiscal Year would not constitute an Event of Default pursuant to the Commonwealth Lease.

While the appropriate officers of the Commonwealth are directed, pursuant to the Commonwealth Lease, to include in successive annual budget proposals items for all Rental Payment Obligations due during the ensuing Fiscal Year, there is no assurance that the General Assembly will appropriate money sufficient to pay Rental Payment Obligations in each ensuing Fiscal Year until maturity of the Bonds. The likelihood of any future appropriation is dependent upon factors beyond the control of the Authority.

THE REMEDIES AVAILABLE TO THE AUTHORITY AND THE TRUSTEE IN THE EVENT OF A FAILURE TO APPROPRIATE ARE LIMITED. IN THE EVENT THE COMMONWEALTH FAILS TO MAKE ANY PAYMENT DUE UNDER THE COMMONWEALTH LEASE, THE COMMONWEALTH LEASE SPECIFICALLY PROVIDES THAT NONAPPROPRIATION BY THE GENERAL ASSEMBLY IS A DEFENSE TO SUCH ACTION.

Availability of Special Revenues

Payments received under the Arena Lease will not be available to pay debt service on the A Bonds, to replenish reserves allocable to the A Bonds, to pay expenses related to the A Bonds, or to make Periodic Payments to the Counterparty with respect to the portion of the Swap Agreement related to the A Bonds (as each such term is hereinafter defined). Additionally, payments received under the Casino Operator or from the Economic Development & Tourism Fund will not be available to pay debt service on the B Bonds, to replenish reserves allocable to the B Bonds, to pay expenses related to the B Bonds, or to make Periodic Payments to the Counterparty with respect to the portion of the Swap Agreement related to the B Bonds.

While the Authority has entered into the Arena Lease prior to the issuance of the Bonds, no assurance can be given as to the availability, timing or amount of revenues to be received by the Authority under the Arena Lease, Casino Operator Agreement or from the Economic Development & Tourism Fund. No rent is due from the Arena Operator until September 25, 2010. In addition, prior to commencement of construction, the Arena Operator may terminate the Arena Lease if the guaranteed maximum price set forth in the Construction Contract for the construction of the Arena plus certain enumerated soft costs, predevelopment expenses, contingencies and Authority oversight expenses exceeds \$310 million. However, prior to such termination, the Arena Operator, the Authority and the Construction Manager must first work together to attempt to redesign and value engineer the design of the Arena to lower the guaranteed maximum price plus enumerated expenses to a level not exceeding \$310 million. Additionally, the Authority cannot guarantee that the holder of the single stand-alone slots casino license will make payments under the Casino Operator Agreement. The following is a summary of certain additional risks and uncertainties associated with the Casino Operator Agreement:

Casino Operator Agreement. On May 29, 2007, the Planning Commission of the City of Pittsburgh (the "Planning Commission") approved a master development plan of PITG Gaming, LLC. On June 28, 2007, Pittsburgh Steelers Sports, Inc. and PSSI Stadium Corp. (collectively, the "Steelers") and Pittsburgh Associates, LP (the "Pirates") each separately appealed the Planning Commission's approval of the master plan with the Supreme Court of Pennsylvania. In their petitions for review/appeal, the Steelers and Pirates fault the Planning Commission's approval alleging that the master plan did not adequately address the traffic impact of the casino planned by PITG Gaming, LLC, especially on days in which the Steelers and/or Pirates have home games. Each petition asks the Court to reverse and vacate the Planning Commission's approval. Although the Supreme Court ordered an expedited review of the legal challenges on July 31, 2007, the Authority cannot make any representations about the outcome, or timing of any decision, of these appeals, nor can the Authority make assurances about the completion date of a slots casino in the City, or assurances that the Casino Operator will make sufficient and timely

payments under the Casino Operator Agreement. No revenue from any such Agreement will be available until all appeals of the two (2) lawsuits are exhausted, a license is issued, and the Casino Operator Agreement becomes effective.

Construction Cost Overruns

It is anticipated that the proceeds from the sale of the Bonds, together with anticipated investment earnings thereon, will be sufficient to complete the construction and equipping of the Arena. Cost overruns or design changes could cause the cost of the Arena to exceed available money described herein to complete it. The Authority has no source of other funds to complete the Arena if such funds are insufficient. The Authority is under no obligation to provide any funds to complete the Arena.

Delays in Opening the Project

There are a number of risks and contingencies associated with the construction of the Arena, including, but not limited to, delayed or flawed performance of the architect, construction manager, contractor, vendors or others associated with the design and construction of the Arena, delivery of the site to allow for the commencement of construction, fire, labor shortages, strikes or other work stoppages and problems in obtaining materials. Arena Lease Revenues will not be available, if at all, until September 25, 2010. In addition, the Arena Operator may terminate the Arena Lease prior to the commencement of construction if a guaranteed maximum price, together with certain enumerated soft costs, predevelopment expenses, contingencies and Authority oversight expenses not in excess of \$310 million cannot be agreed upon when negotiating the Construction Contract (subject to the condition that the Arena Operator, the Authority and the Construction Manager shall have first worked together to redesign and value engineer the Arena to lower the guaranteed maximum price plus certain enumerated expenses to a level not exceeding \$310 million). Such occurrences or similar occurrences may cause the commencement or completion of the Arena to be delayed. If the opening of the Arena should be delayed for any reason beyond the date through which debt service on the Bonds can be paid from capitalized interest, or if access to surety coverage is protracted, certain reserves including debt service reserves may be depleted or exhausted before the Arena is completed. While a delay of this nature would not, in and of itself, excuse the Commonwealth from its payment obligations under the Commonwealth Lease, it may increase the likelihood of failure to appropriate such amounts by the Commonwealth General Assembly. Similarly, while a delay of this nature would not, in and of itself, excuse the Arena Operator from its payment obligations under the Arena Lease, it may increase the likelihood of nonpayment under the Arena Lease.

No Secondary Market

There can be no assurance that a secondary market for the Bonds will be established or maintained. Accordingly, each prospective investor should expect to bear the risk of the investment represented by a purchase of the Bonds to maturity.

Municipal Bond Insurance

Payment of the principal of and interest on the Bonds when due will be insured by the Municipal Bond Insurance Policy. The rating on the Bonds is based on the creditworthiness of the Insurer at delivery of the Bonds. Payment under the Municipal Bond Insurance Policy may depend on the financial condition of the Insurer. See "DESCRIPTION OF THE INSURER" herein. There can be no assurance that the Insurer will maintain its financial condition or that an adverse change in such condition will not adversely affect its ability to make payments under the Municipal Bond Insurance Policy. A change in the financial condition of the Insurer could also result in a change in the rating on the Bonds.

Potential Effects of Bankruptcy

If the eventual Casino Operator or the Arena Operator were to file a petition for relief (or if a petition were filed against either) under the Federal Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against either and their property.

In a bankruptcy proceeding, the Casino Operator or the Arena Operator could file a plan for the adjustment of their debts which modifies the rights of creditors generally or the rights of any class of creditors, secured or unsecured. The plan, when confirmed by the court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless, among other conditions, the plan is in the best interest of creditors, is feasible, and has been accepted by each class of claims impaired thereunder.

Each class of claims will be deemed to have accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Covenant to Maintain Exempt Status of the A Bonds

The tax-exempt status of the A Bonds is based on the continued compliance by the Authority with certain covenants contained in the Indenture. These covenants relate generally to restrictions on the use of the Arena, the source of payment and security for the A Bonds, arbitrage limitations, rebate of certain excess investment earnings to the federal government and restrictions on the amount of issuance costs financed with the proceeds of the A Bonds. Failure to comply with such covenants could cause interest on the A Bonds to become subject to federal income taxation retroactive to the date of issuance of such Bonds.

Enforceability of Remedies

The remedies available to Bondholders upon an Event of Default under the Indenture are in many respects dependent upon judicial action which is subject to discretion or delay. Under existing laws and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified in the Indenture may not be readily available or may be limited. A court may decide not to order specific performance.

The various legal opinions to be delivered concurrently with the original delivery of the Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws or legal or equitable principles affecting creditors' rights.

Creditworthiness of the Bank

Payment of the purchase price of Bonds tendered for purchase will be payable, to the extent remarketing proceeds are not sufficient therefore, from funds made available under the Standby Bond Purchase Agreement. Payment of these amounts will depend on the creditworthiness of the Bank. For information on the Standby Bond Purchase Agreement see "STANDBY BOND PURCHASE AGREEMENT" herein. For information on the Bank, see "THE BANK" herein. There can be no assurance that the Bank will maintain its present financial condition or that an adverse change in such

condition will not adversely affect its ability to honor future payments under the Standby Bond Purchase Agreement.

Other Risk Factors

Other factors, including but not limited to, the operations of the Casino Operator, Arena Operator and the Economic Development & Tourism Fund, may adversely affect the availability and sufficiency of any of the Special Revenues, the Swap Receipts and the Commonwealth Lease Payments to pay debt service on the Bonds to an extent that cannot be determined at this time. Additionally, other lawsuits may be initiated against various parties to the agreements and other documents referenced herein. No assurances can be made by the Authority that such lawsuits would not delay the receipt of Special Revenues or Commonwealth Rent.

BOOK-ENTRY ONLY SYSTEM

The information set forth herein concerning DTC and the book-entry only system described below has been extracted from materials provided by DTC for such purpose and is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Authority.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or the Trustee.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of Bonds (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holding, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfer of ownership interests in the Bonds are to be accomplished by entries made on the books of 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 Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no 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 Participants will remain responsible for keeping account of their holding 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 with respect to the Bonds shall be sent to Cede & Co. If less than all of the Bonds of a particular maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to any matter related to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. 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 Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority and the Trustee; disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority. Upon the written request of holders, the Authority may decide to discontinue use of the system of book-entry transfers for the Bonds through DTC (or a successor securities depository). Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the Bonds will be printed and delivered as provided in the Indenture.

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OR INTEREST AND PREMIUM, IF ANY, ON THE BONDS, (2) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN BONDS, OR (3) NOTICES OF REDEMPTION OR OTHER NOTICES SENT TO DTC OR ITS NOMINEE, CEDE & CO., AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DTC PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE

COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS MAY BE OBTAINED FROM DTC.

THE AUTHORITY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

The book-entry system for registration of the ownership of the Bonds may be discontinued at any time if (i) DTC determines to resign as securities depository for the Bonds; or (ii) the Authority determines that continuation of the system of book-entry transfers through DTC (or through a successor securities depository) is not in the best interests of the Beneficial Owners.

DESCRIPTION OF THE INSURER

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by the Authority as to the accuracy or completeness of the information.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. (defined as "Financial Security" in this section only) will issue its Municipal Bond Insurance Policy for the Bonds (the "Municipal Bond Insurance Policy"). The Municipal Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Municipal Bond Insurance Policy included as an exhibit to this Official Statement.

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

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At June 30, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,642,612,000 and its total net unearned premium reserve was approximately \$2,116,401,000 in accordance with statutory accounting principles. At June 30, 2007, Financial Security's consolidated shareholder's equity was approximately \$3,072,828,000 and its total net unearned

premium reserve was approximately \$1,660,356,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Municipal Bond Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding this Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in this Official Statement.

TAX MATTERS

Tax Exemption; Opinion of Bond Counsel

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

Co-Bond Counsel will issue its opinion as of the date of Closing to the effect that, under existing law, the interest on the A Bonds (a) is excluded from gross income for Federal income tax purposes and (b) is not an item of tax preference within the meaning of the Code, for purposes of the Federal alternative minimum tax imposed by the Code on individuals and corporations; however, it should be noted that with respect to corporations (as defined for Federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed by the Code on such corporations. The opinion set forth in the preceding sentence is subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the A Bonds in order that interest on the A Bonds be (or continue to be) excluded from gross income for Federal income tax purposes. Failure to comply with such requirements may cause the interest on the A Bonds to be included in gross income for Federal income tax purposes retroactively to the date of issuance of the A Bonds. The Authority has covenanted to comply with all such requirements. Bond Counsel expresses no opinion regarding other Federal tax consequences arising with respect to the A Bonds.

Co-Bond Counsel will also issue an opinion as of the date of Closing to the effect that under existing laws of the Commonwealth of Pennsylvania, the Bonds are exempt from personal property taxes

in Pennsylvania and the interest thereon is exempt from the Pennsylvania corporate net income tax and Pennsylvania personal income tax.

The proposed form of opinion of Co-Bond Counsel is attached hereto as Appendix D.

Prospective Purchasers Should Consult Tax Advisors

Prospective purchasers of the A Bonds should be aware that ownership of the A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain “S corporations” with “excess net passive income,” individual recipients of Social Security or Railroad Retirement benefits, foreign corporations subject to the branch profits tax, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the A Bonds. Bond Counsel will express no opinion as to such collateral tax consequences. Prospective purchasers should consult with their own tax advisors as to collateral federal, state and local income tax consequences regarding the effect of holding the Bonds or receiving interest thereon on their affairs, including, but not limited to, the effect of state and local tax laws.

The interest paid on the B Bonds is subject to federal taxation.

LEGAL MATTERS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Eckert Seamans Cherin & Mellott, LLC and R. Darryl Ponton & Associates, each of Pittsburgh, Pennsylvania, Co-Bond Counsel. The form of the approving legal opinion, attached hereto as Appendix D. Buchanan Ingersoll & Rooney PC, Pittsburgh, Pennsylvania, the Authority's Solicitor, will pass upon certain legal matters for the Authority and also will pass upon certain legal matters for the Commonwealth as its Special Counsel. Certain legal matters will be passed upon for the Underwriters by their Co-Counsel, Thorp Reed & Armstrong, LLP and McGuireWoods LLP, each of Pittsburgh, Pennsylvania. Certain legal matters will be passed upon for the Bank by its counsel, Cohen & Grigsby, P.C., Pittsburgh, Pennsylvania

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the lawyers rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, or the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of a legal opinion guaranty the outcome of any legal dispute that may arise out of the transaction.

RATINGS

Standard & Poor's Rating Group and Moody's Investors Service are expected to assign their municipal bond ratings of “AAA” and “Aaa”, respectively, to the Bonds, with the understanding that upon delivery of the Bonds, the Municipal Bond Insurance Policy insuring the payment when due of the principal of and interest on the Bonds will be issued by the Insurer. (See “**BOND RATING**” herein.)

Standard & Poor's Rating Group and Moody's Investors Service are expected to assign their short term ratings of “A-1+” and “VMIG 1”, respectively, to the Bonds with the understanding that upon delivery of the Bonds (i) the Standby Bond Purchase Agreement supporting the payment of the tender purchase price of the Bonds will be executed and delivered by the Bank and (ii) the Municipal Bond Insurance Policy will be delivered by the Insurer to the Trustee.

Generally, rating agencies base their ratings on information and materials furnished to them and on investigations, studies and assumptions made by them. Such a rating reflects only the view of the rating agency assigning the same, and an explanation of the significance of such rating may be obtained only from such rating agency. There is no assurance that a particular rating, once assigned, will be maintained for any given period of time or that it may not be revised downward or withdrawn entirely by the rating agency assigning the same if, in its judgment, circumstances so warrant. A downward change in or withdrawal of a rating may have an adverse effect on the market price of the rated bonds.

The Authority has not applied for an underlying rating based on its own creditworthiness.

Neither the Underwriters nor the Authority have undertaken any responsibility after issuance of the Bonds to oppose a revision or withdrawal of any rating assigned to the Bonds.

LITIGATION

No litigation is pending or, to the knowledge of the Authority, threatened against the Authority (a) seeking to restrain or enjoin the issuance, sale or delivery of any of the Bonds or the application of proceeds of the Bonds as provided in the Indenture or the collection of revenues pledged to secure the Bonds, (b) in any way contesting or affecting any authority for the issuance of the Bonds or the validity or binding effect of the Bonds, the Indenture, the Commonwealth Lease or the Sublease or (c) in any way contesting the creation, existence, powers or jurisdiction of the Authority.

The Authority is currently involved in litigation on matters arising in the course of conducting normal Authority business, none of which litigation is believed by the Authority to adversely affect the availability of the revenues pledged to pay principal of and interest on the Bonds.

While the Authority is not a party, certain stakeholders near the site of the proposed casino have filed a suit that appeals the approval of the master development plan of PITG Gaming, LLC by the Planning Commission of the City of Pittsburgh. See "BONDHOLDERS' RISK FACTORS AND INVESTMENT CONSIDERATIONS – Availability of Special Revenues – Casino Operator Agreement."

CONTINUING DISCLOSURE

Both the Authority and the Commonwealth will agree, pursuant to Continuing Disclosure Agreements (the "Continuing Disclosure Agreements") for the benefit of the Registered Owners and beneficial owners of the Bonds to send certain financial information and operating data to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of certain events, all pursuant to the requirements of Section (b)(5)(i) of SEC Rule 15c2-12 (17 C.F.R. Part 240, § 240.15c2-12) (the "Rule"). The Authority will enter into an undertaking with The Bank of New York Trust Company, N.A., as dissemination agent for the provision of this information. The Commonwealth will act as its own dissemination agent with respect to the information required to be provided pursuant to the Rule. The Authority and the Commonwealth are in full compliance with each previous undertaking respectively entered into by them pursuant to the Rule. Copies of the proposed forms of the Continuing Disclosure Agreements are contained in Appendix G.

UNDERWRITING

The Bonds are being purchased from the Authority by PNC Capital Markets LLC, as representative of itself, and Mesirow Financial, Inc. and Mellon Financial Markets, LLC (together, the "Underwriters"). The Underwriters have agreed to purchase (i) the A Bonds for an aggregate purchase

price of \$251,496,000.00 (representing the aggregate principal amount of the A Bonds, less underwriters' discount of \$504,000.00); and (ii) the B Bonds for an aggregate purchase price of \$61,142,470.00 (representing the aggregate principal amount of the B Bonds, less underwriters' discount of \$122,530.00).

The Underwriters will purchase all the Bonds if any are purchased.

REMARKETING

PNC Capital Markets LLC has been appointed initially as exclusive Remarketing Agent (as defined in the Indenture) for the Bonds. Subject to certain conditions, upon the delivery or deemed delivery of Bonds tendered for purchase by any owners thereof in accordance with the provisions of the Indenture, the Remarketing Agent will offer for sale and use its best efforts to remarket such tendered Bonds, any such remarketing to be made on the date such tendered Bonds are to be purchased, at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Remarketing Agent may be removed or replaced by the Authority and the Remarketing Agent may also resign in accordance with the provisions of the Indenture and the Remarketing Agreements relating to the Bonds.

FINANCIAL ADVISOR

Public Financial Management, Inc. has served as the financial advisor to the Authority in connection with the preparation, authorization and issuance of the Bonds. The Financial Advisor has also provided additional advice to the Authority with respect to the Swap Agreements as Swap Advisor (in each capacity, the "Financial Advisor".) The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor will receive a fee for its services with regard to the issuance of the Bonds and the execution of the Swap Agreement.

CERTAIN RELATIONSHIPS

From time to time, in the normal course of business, PNC Capital Markets LLC, PNC Bank, National Association and the Trustee and/or affiliates of either of the same, may have a credit or other financial relationship with the Authority. In addition, PNC Capital Markets LLC is an underwriter for each series of Bonds, and is also the initial Remarketing Agent for the Bonds. PNC Bank, National Association is providing the Standby Bond Purchase Agreement for the Bonds and will also act as a Counterparty under the Swap Agreements. PNC Capital Markets LLC and PNC Bank, National Association are each wholly-owned subsidiaries of PNC Financial Services Group, Inc.

Buchanan Ingersoll & Rooney PC is acting as both Solicitor to the Authority and Special Counsel to the Commonwealth with respect to the issuance of the Bonds, and from time to time the firm also represents PNC Capital Markets LLC and PNC Bank, National Association. In addition, Buchanan Ingersoll & Rooney PC is representing the Steelers in the suit filed against the Planning Commission with respect to the Planning Commission's granting of approval of the PITG Gaming, LLC master plan for the casino site in the City.

Eckert Seamans Cherin & Mellott, LLC will also represent PNC Capital Markets LLC and PNC Bank, National Association from time to time.

Thorp Reed & Armstrong, LLP will also represent the Authority and PNC Bank, National Association from time to time.

MISCELLANEOUS

All the summaries of the provisions of the Bonds, the Code, the Sports and Exhibition Authority Act, the Indenture, the Commonwealth Lease, the Sublease, the Arena Lease, the Resolution and the documents set forth herein are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all such provisions.

All estimates and assumptions herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. As far as any statements herein invoke matters of opinion, whether or not expressly so stated, they are intended merely as such and not representations of fact.

This Official Statement, including the front pages and attached Appendices, has been duly approved by the Authority and its distribution has been authorized in connection with the offering for the sale of the Bonds.

SPORTS & EXHIBITION AUTHORITY OF
PITTSBURGH AND ALLEGHENY COUNTY

By: /s/ William H. Curtis
Name: William H. Curtis, Vice Chairman

Date: October 2, 2007

By: /s/Mary K. Conturo
Name: Mary K. Conturo, Executive Director

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE

THE FOLLOWING IS A BRIEF SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE. THE SUMMARY DOES NOT PURPORT TO BE COMPREHENSIVE OR DEFINITIVE. REFERENCE SHOULD BE MADE TO THE INDENTURE ITSELF FOR ALL OF ITS TERMS AND CONDITIONS. A COPY OF THE INDENTURE IS AVAILABLE AT THE DESIGNATED CORPORATE TRUST OFFICE OF THE TRUSTEE.

Certain Definitions. The following words and terms apply to the summary of the Indenture and to terms not otherwise defined in the Official Statement:

“Act” means an Act of the General Assembly of the Commonwealth known as the Pennsylvania Sports and Exhibition Authority Act, 16 P.S. Section 5501-A et seq., as amended and supplemented, and all acts supplemental thereto or amendatory thereof.

“Additional Bonds” means all Bonds of the Authority which are in addition to the 2007 Bonds and which may be issued from time to time pursuant to the Indenture.

“Annual Rent Estimate” has the meaning set forth under the caption titled “Commonwealth Lease Payments” herein.

“Arena” means the multi-purpose public auditorium, and related facilities and expenditures, to be financed with the proceeds of the 2007 Bonds.

“Arena Lease” means the Sublease Agreement between the Authority and the Lemieux Group LP, or an affiliate, successor or assign thereof, dated September 18, 2007 with respect to the Arena, as the same may be amended or supplemented from time to time.

“Arena Lease Revenues” means the base rent specified in Article 4 of the Arena Lease received by the Authority pursuant to the Arena Lease.

“Arena Project” means the acquisition, construction and equipping of the Arena.

“ARSs” means any Bonds bearing interest at an Auction Rate.

“ARSs Interest Period” means each period described in the ARSs Provisions as an “Interest Period” with respect to Bonds which bear interest at a particular ARSs Rate.

“ARSs Provisions” means the Special Provisions Relating to ARSs attached to the Indenture.

“ARSs Rate” or **“Auction Rate”** means the rate of interest per annum that results from the implementation of the ARSs Provisions.

“Auction Agency Agreements” shall have the meaning set forth in the ARSs Provisions.

“Auction Agent” shall have the meaning set forth in the ARSs Provisions.

“Auction Period” means the period during which ARSs Rates are in effect for ARSs.

“Authority” means the Sports & Exhibition Authority of Pittsburgh and Allegheny County created pursuant to the Act, and its successors.

“Authority Board” means at any given time the governing body of the Authority.

“Authority Bonds” means Bonds registered in the name of the Authority or any broker-dealer or nominee owning Bonds pursuant to an arrangement with the Authority.

“Authority Representative” means the Chairman, Vice Chairman or Executive Director of the Authority and such other officers or employees of the Authority as shall be so designated by an Authority Representative.

“Authorized Denominations” means (i) with respect to Fixed Rate Bonds, \$5,000 and any integral multiple thereof, (ii) with respect to ARSs, \$25,000 and any integral multiple thereof, and (iii) with respect to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds, \$100,000 and any integral multiple of \$5,000 in excess of \$100,000.

“Average Annual Debt Service Requirement” means as to any Bonds under consideration, the sum of the Debt Service Requirements for the Commonwealth Fiscal Years contained in the period under consideration with respect to such Bonds divided by the number of Commonwealth Fiscal Years contained in such period. Any determination of the Average Annual Debt Service Requirement with respect to Bonds of all series Outstanding shall be made on the basis of a separate determination of the Average Annual Debt Service Requirement for each series of Bonds at the time Outstanding. The “period under consideration” shall mean as to a particular series of Bonds the period beginning with the Commonwealth Fiscal Year in which the calculation is made and ending with the Commonwealth Fiscal Year in which the final maturity of the Bonds of such series shall occur.

“Bond or Bonds” means any Bond or all the Bonds, as the case may be, authenticated and delivered under the Indenture, including the 2007 Bonds.

“Bond Documents” means the Indenture, the Bonds, the Commonwealth Lease, the Sublease, the 2007 Interest Rate Swap Agreement, the Tax Agreement, the Purchase Contract, the Remarketing Agreement, the Liquidity Facility (including the Initial Liquidity Facility), any Auction Agency Agreements, any Broker-Dealer Agreements, the Reserve Policy Reimbursement Agreement and any and all future renewals and extensions or restatements of, or amendments or supplements to, any of the foregoing.

“Bond Register” means the registration books of the Authority kept by the Trustee to evidence the registration and transfer of Bonds.

“Bond Registrar” means the Trustee when acting as such, and any other bank or trust company designated and at the time serving as bond registrar under the Indenture.

“Bondowner,” “Holder,” “Owner” or “Registered Owner” means the Person in whose name a Bond is registered on the Bond Register (including without limitation, Liquidity Provider Bonds).

“Broker-Dealer” or “Broker-Dealers” shall have the meaning set forth in the ARSs Provisions.

“Broker-Dealer Agreement” or “Broker-Dealer Agreements” shall have the meaning set forth in the ARSs Provisions.

“Business Day” means (a) with respect to Bonds which are ARSs, the meaning set forth in the ARSs Provisions or (b) with respect to Bonds which are not ARSs, a day (i) other than a day on which banks located in the City of New York, New York or the cities in which the Designated Office of the Trustee, the Tender Agent, the Remarketing Agent or the Liquidity Provider are located, are required or authorized by law or executive order to close, and (ii) on which the New York Stock Exchange is not closed.

“Casino Operator Agreement” means any agreement entered into between the Authority and/or the Commonwealth, or any agency, commission or public body thereof, pursuant to which the entity which receives a license to operate a casino in the City of Pittsburgh agrees to make payments which shall constitute a portion of the Special Revenues, as the same may be amended from time to time.

“Certificate of Authority Representative” means a written certificate signed by an Authority Representative, which certificate shall be deemed to constitute a representation of, and shall be binding upon, the Authority with respect to matters set forth therein.

“Code” means the Internal Revenue Code of 1986, as amended, and, when appropriate, any statutory predecessor or successor thereto, and all applicable regulations (whether proposed, temporary or final) thereunder and any applicable official rulings, announcements, notices, procedures and judicial determinations relating to the foregoing.

“Commonwealth” means the Commonwealth of Pennsylvania.

“Commonwealth Fiscal Year” means July 1 of each year through the next succeeding June 30.

“Commonwealth Lease” means the Agreement of Lease dated as of September 15, 2007, between the Authority, as lessor, and the Commonwealth (through its Department of General Services), as lessee, as from time to time amended by Supplemental Lease Agreements.

“Commonwealth Lease Payments” means the payments referred to in Section 2 of the Commonwealth Lease.

“Conversion Date” means, with respect to a particular series of Bonds, a date on which the Bonds of such series begin to bear interest at ARSs Rates, Daily Rates, Weekly Rates, Short-Term Rates, Long-Term Rates or Fixed Rates as provided in the Indenture.

“Costs of Issuance” means issuance costs with respect to the Bonds described in Section 147(g) of the Internal Revenue Code, including the following (but excluding the premium for the 2007 Bond Insurance Policy and fees of the 2007 Bond Insurer’s counsel, if any):

- (a) underwriter’s spread (whether realized directly or derived through purchase of Bonds at a discount below the price at which they are expected to be sold to the public);
- (b) counsel fees (including bond counsel, swap counsel, underwriter’s counsel, Authority’s counsel, Liquidity Provider’s counsel, Trustee’s counsel, as well as any other specialized counsel fees incurred in connection with the borrowing);
- (c) financial advisor fees of any financial advisor and swap advisor to the Authority incurred in connection with the issuance of the Bonds;
- (d) rating agency fees;

- (e) trustee, registrar, tender agent, escrow agent and paying agent fees;
- (f) accountant fees and other expenses related to issuance of the Bonds;
- (g) printing costs (for the Bonds and of the preliminary and final official statement relating to the Bonds); and
- (h) fees and expenses of the Authority incurred in connection with the issuance of the Bonds.

“Costs of the Project” means, when used with reference to the Arena Project or any additional capital project related to the Arena, the costs properly chargeable thereto in accordance with generally accepted accounting principles, and includes, without limitation, financing costs (including, but not limited to, discount on Bonds, costs of issuance of Bonds, the premiums for bond insurance policies, swap insurance policies and debt service reserve fund surety bonds, engineering, architectural and inspection fees and costs, Trustee or fiscal agents’ fees, rating agency fees, remarketing agent fees, liquidity facility fees, and costs of financial, legal, professional and other services); organization, administrative, insurance and other incidental expenses of any Person prior to and during acquisition or construction; title insurance costs; and all such other expenses as may be necessary or incidental to the financing, acquisition, construction or completion of the particular project or part thereof. “Cost” or “Costs” shall also include, inter alia, the following, where necessary or desirable in connection with the Arena:

- (a) obligations incurred for labor and to contractors, builders and materialmen;
- (b) interest, not otherwise provided for, upon Bonds issued, related swap obligations, or loans obtained, to provide funds for the construction of the Arena during the period of construction thereof and for a period, with respect to each project, not in excess of one year after the date of completion of such project;
- (c) the costs of acquiring by purchase, and the amount of any award or final judgment in any proceeding to acquire by condemnation, lands, property, rights, rights-of-way, franchises, easements or other interests in property and the amount of any damages incident to or consequent upon such acquisition or condemnation;
- (d) the costs of acquiring any property, real, personal or mixed, tangible or intangible, or any interest therein;
- (e) the cost of contract bonds and of insurance of all kinds which may be required or necessary during the course of any such construction and which are not paid by the contractor or contractors, or otherwise provided for;
- (f) the fees and expenses of engineers or other experts and the cost of surveys, estimates, plans and specifications and preliminary investigations, and for supervising construction, as well as for the performance of all other duties of such engineers or other experts required by or consequent upon the proper performance of any such construction or required by governmental agencies making grants for or governmental agencies having jurisdiction over any such construction;
- (g) all costs which the Authority shall be required to pay under the terms of any contract or contracts for any such construction;

- (h) rent or fees for the use of any construction machinery or equipment required in connection with the Arena;
- (i) all other costs properly allocable to capital accounts in connection with the above items under generally accepted accounting principles; and
- (j) any sums required to reimburse the Authority or others for advances made for any of the above items, or for any other costs incurred and for work done by any of them, which are properly chargeable to the cost of construction of the Arena in accordance with generally accepted accounting principles, and any sums required to repay temporary borrowings.

“Counsel” means counsel, duly authorized to engage in the practice of law, who may be, but need not be, retained regularly by the Authority, duly appointed by the Authority Board.

“Daily Interest Period” means, with respect to Daily Rate Bonds, each period described in the Indenture during which such Daily Rate Bonds bear interest at a particular Daily Rate.

“Daily Rate” means, with respect to Daily Rate Bonds, the per annum interest rate for such Daily Rate Bonds during a Daily Interest Period determined on a daily basis as provided in the Indenture.

“Daily Rate Bonds” means a series of Bonds bearing interest at a Daily Rate.

“Daily Rate Period” means, with respect to Daily Rate Bonds, the period during which Daily Rates are in effect for the Daily Rate Bonds.

“Debt Service Requirements” means, in respect of any Commonwealth Fiscal Year, the sum of the amounts required to be paid in such Commonwealth Fiscal Year by the Authority in respect of the interest on and the principal of the applicable series of Bonds and the amounts required to be paid to any sinking, purchase or analogous fund established for such Bonds; provided, however, that:

- (i) the Debt Service Requirements in respect of any Commonwealth Fiscal Year for a series of Bonds for which there shall have been established a sinking, purchase or analogous fund shall be determined after projecting the operation of such fund to the retirement of Bonds by redemption and giving effect to the reduction in the payments to be made in such Commonwealth Fiscal Year in respect of the principal of and interest on such Bonds by reason of such redemption;
- (ii) the amount on deposit with the Trustee for the payment of interest on the Bonds of any series may be deducted from the Debt Service Requirements for that series;
- (iii) the amount on deposit in the Debt Service Reserve Fund with respect to any series of Bonds may be deducted from the Debt Service Requirements for that series in the last year of maturity;
- (iv) if Bonds are issued bearing interest at a variable rate, whenever Debt Service Requirements on such Bonds are required to be computed for the purposes of the Indenture, interest on such Bonds shall be assumed to bear interest at the highest of : (A) (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding); (ii) if the indebtedness has been outstanding for at least twelve (12) months, the average rate over the twelve (12) months immediately preceding the date of calculation; and (iii) (1) if the interest on the indebtedness is

excluded from gross income under the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index) if no longer published) plus fifty (50) basis points, or (2) if interest is not so excludable, the interest on direct U.S. Treasury Obligations with comparable maturities plus fifty (50) basis points and (B) fees of any liquidity facility shall also be included; and

(v) if the Authority has entered into a Derivative Contract with respect to any series of variable rate Bonds pursuant to which the Authority pays amounts calculated with reference to a fixed rate of interest, and receives amounts calculated with reference to a rate of interest based on an index or other method that the Authority reasonably expects (as evidenced by a Certificate of Authority Representative filed with the Trustee) to approximately equal the interest to be paid on the related variable rate Bonds, Debt Service Requirements shall be calculated by substituting the fixed rate used to determine amounts payable by the Authority under the Derivative Contract in lieu of the variable rate on the Bonds.

“Defaulted Interest” means interest on any Bond which is payable but not paid on the date due.

“Derivative Contract” means any interest rate swap, exchange, cap or other agreement between the Authority and any other party for the purpose of managing interest rate, spread or similar exposure. The 2007 Interest Rate Swap Agreement is a Derivative Contract.

“Designated Office” means, with respect to any entity performing functions under any Bond Document, the office of that entity or its affiliate designated by such entity at which those functions are performed.

“Economic Development and Tourism Fund” means the Pennsylvania Gaming Economic Development and Tourism Fund established pursuant to 4 Pa.C.S.A. Section 1407.

“Event of Default” means any **“Event of Default”** as defined under the caption “Events of Default” herein.

“Expiration Date” means the date upon which the Liquidity Provider’s obligation to purchase Bonds under the Liquidity Facility is scheduled to expire (taking into account any extensions of the Expiration Date) in accordance with its terms, other than by reason of conversion to a different rate period, a substitution of a Substitute Liquidity Facility, an “event of default” or an “event of termination” specified in the Liquidity Facility or the deposit of a Substitute Liquidity Facility with the Trustee.

“Extraordinary Services” and **“Extraordinary Expenses”** means all services rendered and all reasonable expenses properly incurred by the Trustee or any of its agents under the Indenture, other than Ordinary Service and Ordinary Expenses.

“Favorable Opinion of Bond Counsel” means an opinion of nationally recognized bond counsel acceptable to the Authority, addressed to the Authority, the Remarketing Agent, the Liquidity Provider, the 2007 Bond Insurer and the Broker-Dealer that is the subject of that opinion and the Trustee, to the effect that (i) the action proposed to be taken is authorized or permitted by the Indenture and (ii) if the interest on the Bonds which are the subject of that opinion are excluded from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code, such action will not adversely affect the exclusion of interest on such Bonds from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code.

“Fiscal Year” means the fiscal year of the Authority, currently the 12-month period beginning on January 1 of each calendar year and ending on December 31 of such calendar year.

“Fitch” means Fitch Ratings, and its successors and assigns, or, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, Fitch means any other nationally recognized securities rating service designated by the Authority, with notice in writing to the Authority and the Trustee with the consent of the 2007 Bond Insurer.

“Fixed Rate” means, with respect to Fixed Rate Bonds, a non-variable interest rate or rates to maturity established in accordance with the Indenture.

“Fixed Rate Bonds” means a series of Bonds bearing interest at a Fixed Rate.

“Fixed Rate Period” means, with respect to Fixed Rate Bonds, the period of time, which shall end at the maturity date for the Fixed Rate Bonds, during which the Fixed Rate Bonds bear interest at a Fixed Rate.

“Holder” shall have the same meaning as the term “Bondowner.”

“Initial Liquidity Facility” means the Standby Bond Purchase Agreement dated as of the date of the Indenture between the Authority and the Initial Liquidity Provider, as the same may be amended from time to time.

“Initial Liquidity Provider” means PNC Bank, National Association, in its capacity as the issuer of the Initial Liquidity Facility.

“Insured Swap Payments” shall mean the periodic fixed amounts payable by the Authority to the 2007 Swap Counterparty pursuant to the 2007 Interest Rate Swap Agreement that are insured pursuant to 2007 Swap Insurance Policy issued by the 2007 Swap Insurer.

“Interest Payment Date” means:

- (a) with respect to ARSs, each date defined as such in the ARSs Provisions and any day that is a Conversion Date from an ARSs Rate Period;
- (b) with respect to Bonds other than ARSs and Liquidity Provider Bonds:
 - (i) as to Daily Rate Bonds and Weekly Rate Bonds, the first Business Day of each calendar month, any day that is a Conversion Date from a Daily Rate Period or a Weekly Rate Period, as appropriate, and the maturity date for the Bonds;
 - (ii) as to Short-Term Rate Bonds, the first Business Day after the last day of each Short-Term Interest Period and any day that is a Conversion Date from Short-Term Rate Bonds;
 - (iii) as to Long-Term Rate Bonds, each May 1 and November 1 and any day that is a Conversion Date from a Long-Term Rate Period; and
 - (iv) as to Fixed Rate Bonds, each May 1 and November 1 through and including the maturity date for the Bonds; and
- (c) with respect to Liquidity Provider Bonds, the first Business Day of each calendar month.

“Interest Rate Period” means (i) an ARSs Rate Period (comprised of separate ARSs Interest Periods), (ii) a Daily Rate Period (comprised of separate Daily Interest Periods), (iii) a Weekly Rate Period (comprised of separate Weekly Interest Periods), (iv) a Short-Term Rate (comprised of separate Short-Term Interest Periods), (v) a Long-Term Rate Period (comprised of separate Long-Term Interest Periods), or (vi) a Fixed Rate Period.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, and, when appropriate, any statutory predecessor or successor thereto, and all applicable regulations (whether proposed, temporary or final) thereunder and any applicable official rulings, announcements, notices, procedures and judicial determinations relating to the foregoing.

“Liquidity Facility” means, with respect to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, any standby bond purchase agreement, letter of credit, line of credit, insurance policy or other similar agreement, and any related reimbursement agreement, among the Liquidity Provider, the Authority and the Tender Agent, then in effect providing for the payment of the principal of or premium, if any, and interest on the Bonds and/or the purchase of, or the funding of amounts to purchase, Bonds on Purchase Dates applicable to Bonds for the then relevant Interest Rate Period, as the same may from time to time be amended or supplemented in accordance with its terms and the terms of the Indenture.

“Liquidity Provider” means any commercial bank, other financial institution, the Authority (if the Authority is providing liquidity for any Bonds itself) or other institution issuing a Liquidity Facility then in effect in its capacity as issuer of that Liquidity Facility. The initial Liquidity Provider shall be PNC Bank, National Association.

“Liquidity Provider Bonds” means Bonds purchased by the Liquidity Provider pursuant to a Liquidity Facility and the terms of the Indenture but excluding Bonds no longer considered Liquidity Provider Bonds pursuant to the terms of the Liquidity Facility.

“Liquidity Provider Rate” means the interest rate(s) applicable from time to time to Liquidity Provider Bonds as determined in accordance with the Liquidity Facility; provided that no Liquidity Provider Rate shall exceed the maximum interest rate set forth in the Liquidity Facility.

“Long-Term Interest Period” means each period described in the Indenture during which Bonds accrue interest at a particular Long-Term Rate.

“Long-Term Rate” means the per annum interest rate to be determined on Long-Term Rate Bonds for a term of at least 12 months pursuant to the Indenture.

“Long-Term Rate Bonds” means any series of Bonds bearing interest at a Long-Term Rate.

“Long-Term Rate Period” means, with respect to Long-Term Rate Bonds, the period during which Long-Term Rates are in effect for the Long-Term Rate Bonds.

“Maximum Annual Debt Service Requirement” means the largest Debt Service Requirements to be paid by the Authority with respect to the applicable series of Bonds during any period for which such requirement is being calculated.

“Maximum Rate” means (a) with respect to ARSs, the Maximum Auction Rate determined in accordance with the ARSs Provisions, (b) with respect to Liquidity Provider Bonds, the maximum rate set forth in the Liquidity Facility, and (c) with respect to any Bonds other than ARSs or Liquidity Provider

Bonds, the lesser of 12% per annum or any other maximum rate utilized to determine the amount available under the Liquidity Facility, if any.

“Moody’s” means Moody’s Investors Services, Inc., and its successors and assigns, or, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, Moody’s means any other nationally recognized securities rating service designated by the Authority, with written notice to the Trustee with the consent of the 2007 Bond Insurer.

“One-Month LIBOR Rate” means, as of any date of determination, the offered rate (rounded up to the next highest 0.001%) for deposits in U.S. dollars for a one-month period which appears on the Dow Jones Page 3750 (previously known as Telerate Page 3750) at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

“One-Year LIBOR Rate” means, as of any date of determination, the offered rate (rounded up to the next highest 0.001%) for deposits in U.S. dollars for a one-year period which appears on the Dow Jones Page 3750 (previously known as Telerate Page 3750) at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

“Ongoing Fees and Transaction Expenses” means the annual fees and expenses of the Liquidity Provider, the Trustee, the Remarketing Agent, the Tender Agent, any Rating Agency, any rebate consultant, any disclosure agent, and any Broker-Dealer, and such other fees relating to the 2007 Bonds as the Authority may designate.

“Opinion of Counsel” means an opinion in writing signed by legal counsel acceptable to the Trustee, who may be an employee of or counsel to the Authority.

“Ordinary Services” and **“Ordinary Expenses”** means those services normally rendered and those expenses normally incurred, by a trustee under instruments similar to the Indenture, but not those services (other than a drawing on a Liquidity Facility) rendered and those expenses incurred following the occurrence and during the continuation of an Event of Default.

“Original Purchaser” means PNC Capital Markets LLC, Pittsburgh, Pennsylvania, as representative of itself, and any other purchasers listed as such in the applicable Purchase Contract.

“Outstanding” means, when used with reference to Bonds, as of a particular date, all Bonds theretofore authenticated and delivered, except:

- (1) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation pursuant to the Indenture;
- (2) Bonds which are deemed to have been paid in accordance with the Indenture; and
- (3) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Indenture.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the 2007 Bond Insurer pursuant to the 2007 Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the Trust Estate and all

covenants, agreements and other obligations of the Authority to the Owners shall continue to exist and shall run to the benefit of the 2007 Bond Insurer, and the 2007 Bond Insurer shall be subrogated to the rights of such Owners.

“Owner” has the same meaning as the term “Bondowner.”

“Paying Agent” means the Trustee and any other commercial bank or trust institution organized under the laws of any state of the United States of America or any national banking association designated by the Indenture or any Supplemental Indenture as paying agent for the Bonds at which the principal of and redemption premium, if any, and interest on such Bonds shall be payable.

“Permitted Defeasance Obligations” means investments described in clauses (1) and/or (2) under the definition of “Permitted Investments.” Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

“Permitted Investments” means, if and to the extent the same are at the time legal for investment of funds held under the Indenture, treating such funds as belonging to the Authority:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation),
- (2) Obligations of, or obligations guaranteed as to timely payment of principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
 - U.S. treasury obligations
 - All direct or fully guaranteed obligations
 - Farmers Home Administration
 - General Services Administration
 - Guaranteed Title XI financing
 - Government National Mortgage Association (GNMA)
 - State and Local Government Series
- (3) The following obligations shall be Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts:
 - (a) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Rural Economic Community Development Administration
 - U.S. Maritime Administration

- Small Business Administration
 - U.S. Department of Housing & Urban Development (PHAs)
 - Federal Housing Administration
 - Federal Financing Bank
- (b) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System
 - Senior debt obligations of other Government Sponsored Agencies approved by the 2007 Bond Insurer
- (c) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A 1" or "A 1+" by S&P and maturing not more than 30 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (d) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A 1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
- (e) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating of S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2, including, without limitation, the money market mutual funds or any other mutual fund comprised of allowable investments for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates;
- (f) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

- (I) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s or S&P or any successors thereto; or
 - (II) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
 - (III) the cash or obligations serving as security for the municipal obligations are held by an escrow agent or trustee for owners of the municipal obligations;
 - (IV) no substitution of an obligation held in the escrow shall be permitted except with another obligation described in (2) above and upon delivery of a new verification report meeting the requirements of (II)(ii) above; and
 - (V) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.
- (g) Municipal Obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P;
- (h) Repurchase Agreements:

With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated in one of the three highest rating categories by S&P and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated in one of the three highest rating categories by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated (or the guarantor of which is rated) in one of the three highest rating categories by S&P and Moody’s, provided that:

- (i) The market value of the securities is maintained at 104% of the principal and accrued interest invested thereunder;
- (ii) The Trustee or a third party acting solely as agent therefore or for the Authority (the “Holder of the Securities”) has possession of the securities or the securities have been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);

(iii) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such securities are delivered to the effect that, if the transactions for which provision is made in the repurchase agreement were to be recharacterized as secured loan transactions with the securities constituting collateral therefore, the Holder of the Securities would have a perfected security interest in the Securities, any substituted securities and all proceed thereof (in the case of bearer securities, this means the Holder of the Securities is in possession);

(iv) The repurchase agreement shall provide that if during its term the provider's (or its guarantor's) rating by either Moody's or S&P is withdrawn or suspended or falls below "A" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Authority or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Authority or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (h)(i) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's respectively.

(i) Investment Agreements with a domestic or foreign bank or financial institution (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated in one of the two highest rating categories by S&P and Moody's; provided that, by the terms of the investment agreement:

(i) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

(ii) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Authority and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(iii) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(iv) the Authority or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Authority, the Trustee and the Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Insurer;

(v) the investment agreement shall provide that if during its term

X) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at 104% of the principal and accrued interest invested thereunder; or (ii) repay the principal of and accrued but unpaid interest on the investment; and

Y) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority or Trustee, and

(vi) The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(vii) the investment agreement must provide that if during its term

X) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate, and

Y) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate.

(j) Permitted investments shall specifically exclude the use of an investment product whereby a trust department of a bank or other financial institution invests trust assets as a depositor of such bank or financial institution unless such bank or financial institution is rated not less than "AA" by S&P and "Aa" by Moody's throughout the term during which such investment product is used.

The value of the above investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing

services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers.

- (b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon; and
- (c) As to any investment not specified above: the value thereof established by prior agreement among the Authority, the Trustee, and the 2007 Bond Insurer.

"Person" means any natural person, firm, joint venture, association, partnership, business, trust, corporation, limited liability company, public body, agency or political subdivision thereof or any other similar entity.

"Prevailing Market Conditions" means, to the extent relevant (in the professional judgment of the Remarketing Agent) at the time of establishment of a rate or rates for Bonds as provided in the Indenture, (a) interest rates on comparable securities then being issued and traded, (b) other financial market rates and indices that may have a bearing on rates of interest; (c) general financial market conditions (including then current forward supply figures) that may have a bearing on rates of interest, and (d) the financial condition, results of operation and credit standing of the Authority, the Liquidity Provider and/or the 2007 Bond Insurer to the extent such standing has a bearing on rates of interest.

"Prime Rate" means the rate from time to time publicly announced by the Trustee's primary commercial banking affiliate as its "prime rate" or "base rate."

"Purchase Contract" means the Bond Purchase Agreement between the Authority and the Original Purchaser with respect to the Bonds.

"Purchase Date" means each date on which Bonds are subject to optional or mandatory purchase pursuant to the Indenture.

"Purchase Price" means, with respect to a Bond subject to purchase on a Purchase Date, an amount equal to the principal amount thereof plus (if such Purchase Date is not an Interest Payment Date therefor) accrued and unpaid interest thereon to such Purchase Date.

"Qualified Financial Institution" means a bank, trust company, national banking association, insurance company or other financial services company or entity, approved by the 2007 Bond Insurer and whose unsecured short-term debt obligations are rated in either of the two highest categories by Fitch, Moody's or S&P.

"Rating Agency" shall mean any nationally recognized securities rating agency then maintaining a rating on the Bonds at the request of the Authority, and initially means S&P and Moody's.

"Record Date" means (i) with respect to each Interest Payment Date for ARSs, the Record Date determined in accordance with the ARSs Provisions, (ii) with respect to each Interest Payment Date for Daily Rate Bonds, Weekly Rate Bonds or Short-Term Rate Bonds, the Business Day immediately preceding that Interest Payment Date, and (iii) with respect to each Interest Payment Date for Fixed Rate Bonds or Long-Term Rate Bonds, the fifteenth (15th) day of the month immediately preceding such Interest Payment Date.

"Registered Owner" shall have the same meaning as the term **"Bondowner."**

“Remarketing Agent” means any firm at the time serving as Remarketing Agent pursuant to the Indenture.

“Remarketing Agreement” means, with respect to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, any agreement between the Authority and a Remarketing Agent whereby the Remarketing Agent agrees to perform the duties of the Remarketing Agent under the Indenture with respect to those Bonds. The initial Remarketing Agreements are the Remarketing Agreements dated October 4, 2007 between the Authority and PNC Capital Markets LLC.

“Rental Payment Date” means August 1 of each Commonwealth Fiscal Year.

“Rental Payment Obligations” means, collectively, the following; provided, that any Rental Payments Obligations due on a Rental Payment Date shall be made as a payment for amounts due and owing as rent under the Commonwealth Lease in the immediately preceding Commonwealth Fiscal Year, as well as for amounts accruing on that Rental Payment Obligation to the Rental Payment Date plus amounts owed from any shortfall or failure to pay any Rental Payment Obligations due, on a cumulative basis, from all preceding Rental Payment Periods:

- (i) all amounts required to be paid by the Authority to the 2007 Swap Counterparty under the 2007 Interest Rate Swap Agreement during the related Rental Payment Period, including without limitation any scheduled periodic payments, plus any interest accrued thereon, and any aggregate unpaid amount accrued or estimated to accrue under the 2007 Interest Rate Swap Agreement during the related Rental Payment Period; plus
- (ii) all amounts necessary to enable the Trustee to pay all interest on the 2007 Bonds coming due on each and every Interest Payment Date therefor occurring during the related Rental Payment Period, after taking into account any payments actually received from the 2007 Swap Counterparty under the 2007 Interest Rate Swap Agreement during such period and deposited with the Trustee; plus
- (iii) all amounts necessary to enable the Trustee to make each and every principal payment or mandatory redemption payment on the 2007 Bonds scheduled to be made during the related Rental Payment Period, including, without limitation, redemption of Liquidity Provider Bonds, as provided in the Liquidity Facility; plus
- (iv) all amounts drawn from the Debt Service Reserve Fund or any other reserve fund (including without limitation the Supplemental Reserve Fund and any other special reserve fund established under the Indenture on account of or in relation to the 2007 Interest Rate Swap Agreement) and necessary to restore the same to the required levels in accordance with the terms of the Indenture or the Reserve Policy Reimbursement Agreement; plus
- (v) all amounts necessary to reimburse the 2007 Surety Bond Provider for any draws on the Reserve Fund Surety Bond in accordance with the terms of the Reserve Policy Reimbursement Agreement, together with all other amounts required to be paid by the Authority to the 2007 Surety Bond Provider under the Reserve Policy Reimbursement Agreement; plus
- (vi) all amounts necessary to reinstate the Liquidity Facility with respect to drawings with which Liquidity Provider Bonds are delivered, at a price and in accordance with the

terms of the Indenture and the Liquidity Facility, including, without limitation, interest at the rate for which provision is made in the Liquidity Facility; plus

(vii) all amounts necessary to pay the fees and expenses of any Remarketing Agent, any Auction Agent, any Broker-Dealer, any Tender Agent, the Trustee, any Rating Agency, the 2007 Swap Counterparty, the Liquidity Provider, the 2007 Bond Insurer, the 2007 Swap Insurer, any rebate consultant as may be required under the Indenture and any Liquidity Provider that the Authority has agreed to pay during the related Rental Payment Period; plus

(viii) all amounts necessary to be provided by the Authority in order to enable the Trustee to pay the full amount of any redemption price of the 2007 Bonds (including any applicable redemption premium) expected to occur during the related Rental Payment Period, which redemption is being funded pursuant to the terms of the Indenture in whole or in part from moneys that the Indenture requires be provided by the Authority other than out of funds then held by the Trustee under the Indenture (whether by reason of a redemption to which the Commonwealth has consented or a redemption as to which no consent by the Commonwealth is required); plus

(ix) any moneys required to be deposited into the Rebate Fund under the Indenture during the related Rental Payment Period that are not available from other sources under the Indenture; plus

(x) all amounts required to be paid by the Authority to the 2007 Bond Insurer and the 2007 Swap Insurer under the Indenture or otherwise in respect of the 2007 Swap Insurance Policy or the 2007 Bond Insurance Policy during the related Rental Payment Period; plus

(xi) that portion, if any, of the above amounts payable in respect of any cumulative prior Rental Payment Periods that, for any reason, have not been paid in full as of such Rental Payment Date plus any costs and expenses that will have accrued on such previously unpaid amounts until the Rental Payment Date on which all obligations are paid in full; plus

(xii) all amounts required to be paid by the Authority to the 2007 Swap Counterparty under the 2007 Interest Rate Swap Agreement during the Rental Payment Period, including without limitation any termination payments thereunder, plus any interest accrued thereon, and any other required payments other than scheduled periodic payments specified in (i) above.

“Rental Payment Period” means the Commonwealth Fiscal Year immediately preceding the applicable Rental Payment Date.

“Reserve Fund Surety Bond” means a surety bond, letter of credit or similar instrument which meets the requirements of the Indenture and, with respect to the 2007 Bonds, shall mean the 2007 Reserve Fund Surety Bonds.

“Reserve Policy Reimbursement Agreement” means the Reserve Policy Reimbursement Agreement dated October 4, 2007 between the Authority and the 2007 Surety Bond Provider, as the same may be amended from time to time.

“Reserve Requirement” means, initially (a) with respect to the Series A Bonds, an amount equal to \$14,796,411.00, which amount shall be cash-funded with proceeds of the Series A Bonds (provided that such amount shall be equal to less than the least of: (i) 10% of the principal amount of all Outstanding Series A Bonds; (ii) the Maximum Annual Debt Service Requirement on all Outstanding Series A Bonds; or (iii) 125% of the Average Annual Debt Service Requirement on all Outstanding Series A Bonds) and (b) with respect to the Series B Bonds, an amount equal to \$8,600,217.72, which amount shall be funded with a Reserve Fund Surety Bond in such amount purchased with proceeds of the Series B Bonds; provided, however, in the event that one or more Reserve Fund Surety Bonds are substituted for the cash or investments in the Series A Account of the Debt Service Reserve Fund, the Reserve Fund Surety Bonds shall be in the amount of \$14,850,140.01 which have been sized proportionately to be sufficient, in the aggregate, to pay the maximum of any three consecutive semi-annual periods of Debt Service Requirements for the Series A Bonds plus Ongoing Transaction Fees and Expenses or in an amount approved by the 2007 Bond Insurer. The Reserve Requirement for any Additional Bonds shall be set forth in the Supplemental Indenture relating thereto.

“Resolution” means the resolution of the Authority adopted June 7, 2007 authorizing the issuance of the 2007 Bonds and the execution and delivery of the Indenture, the Commonwealth Lease and related documents.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors and assigns, or, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, S&P shall mean any other nationally recognized securities rating service designated by the Authority, with notice to the Trustee.

“S&P Weekly Index” means the Standard & Poor’s Weekly Index which is composed of thirty-four MIG-1 rated municipal tax-exempt notes that are not subject to AMT and the coupon of each issue is adjusted to price that component on par and track the weekly tax-exempt levels.

“Series A Bonds” means the Authority’s Commonwealth Lease Revenue Bonds, Series A of 2007 (Variable Rate Demand), in the aggregate principal amount of \$252,000,000, issued by the Authority pursuant to the Indenture.

“Series B Bonds” means the Authority’s Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Variable Rate Demand), in the aggregate principal amount of \$62,265,000, issued by the Authority pursuant to the Indenture.

“Short-Term Interest Period” means each period determined as provided in the Indenture during which the Short-Term Rate Bonds bear interest at a particular Short-Term Rate.

“Short-Term Rate” means the per annum interest rate for the Short-Term Rate Bonds during a Short-Term Rate Period determined on a periodic basis as provided in the Indenture.

“Short-Term Rate Bonds” means any series of Bonds bearing interest at a Short-Term Rate.

“Short-Term Rate Period” means, with respect to Short-Term Rate Bonds, the period during which Short-Term Rates are in effect for the Short-Term Rate Bonds.

“SIFMA Municipal Index” means The Securities Industry and Financial Markets Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or as otherwise designated by The Securities Industry and

Financial Markets Association; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successor, then “SIFMA Municipal Index” shall mean such other reasonably comparable index selected by the Authority.

“Special Record Date” means the date fixed by the Trustee pursuant to the Indenture for the payment of Defaulted Interest.

“Special Revenues” means (i) the Arena Lease Revenues, (ii) the receipts and revenues received by the Authority pursuant to the Casino Operator Agreement and (iii) the receipts and revenues received from the Economic Development and Tourism Fund in accordance with Section 3(2)(I)(D) of Act 53 of 2007, each in the amounts set forth in the Indenture, as the same may hereafter be amended from time to time with the consent of the Authority, the Commonwealth and the 2007 Bond Insurer.

“Sublease” means the Agreement of Sublease dated as of the date of the Indenture by and between the Commonwealth (through its Department of General Services), as sublessor, and the Authority, as Sublessee, and any supplements or amendments thereto.

“Substitute Liquidity Facility” means a substitute Liquidity Facility replacing a Liquidity Facility in accordance with the Indenture and acceptable to the 2007 Bond Insurer.

“Substitution Date” means a date on which a Substitute Liquidity Facility is accepted by the Tender Agent and becomes effective with respect to the Bonds, or a date on which an existing Liquidity Facility assigns all or a portion of its rights and/or obligations to an assignee Liquidity Facility, in each case, in accordance with the Indenture.

“Supplemental Indenture” means any indenture supplemental or amendatory to the Indenture entered into by the Authority and the Trustee pursuant to the Indenture.

“Supplemental Lease Agreement” means any agreement supplemental or amendatory to the Commonwealth Lease entered into by the Authority and the Commonwealth pursuant to the Indenture and the Commonwealth Lease.

“Swap Receipts” means all amounts due and payable by the 2007 Swap Counterparty pursuant to the 2007 Interest Rate Swap Agreement.

“Tax Agreement” means the Tax Certificate and Agreement, executed and delivered by the Authority, containing representations and covenants regarding the preservation of the tax-exempt status of the interest on the Series A Bonds, the investment of proceeds of the Series A Bonds, and the calculation and payment of rebate amounts under Section 148(f) of the Internal Revenue Code.

“Tender Agent” means, initially, the Trustee, and any successor Tender Agent as determined or designated under or pursuant to the Indenture.

“Termination Date” means the date which is seven calendar days (or if such seventh calendar day is not a Business Day, the next Business Day) after the date on which the Tender Agent receives written notice from the Liquidity Provider which (i) advises the Tender Agent of the occurrence and continuance of an “event of default” or “event of termination” under and as defined in the Liquidity Facility, and (ii) directs the Tender Agent to cause a mandatory tender of the Bonds by reason thereof.

“Trust Estate” means the Trust Estate described under the caption “Source of Payment of Bonds; Trust Estate” herein.

“Trustee” means The Bank of New York Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America and its successor and any entity resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee under the Indenture.

“2007 Bonds” means, collectively, the Series A Bonds and the Series B Bonds.

“2007 Bond Insurance Policy” means the financial guaranty insurance policy issued by the 2007 Bond Insurer in respect of the 2007 Bonds.

“2007 Bond Insurer” means Financial Security Assurance Inc., a New York stock insurance company.

“2007 Interest Rate Swap Agreement” means the Master Agreement dated September 19, 2007, as supplemented by the Schedule and any Credit Support Annex thereto and the related Confirmations, each between the 2007 Swap Counterparty and the Authority.

“2007 Project” means a project consisting of (i) the Arena Project, (ii) the payment of capitalized interest on the 2007 Bonds; (iii) the funding of a Debt Service Reserve Fund, including payment of the costs of debt service reserve fund surety bonds; (iv) the funding of other reserve funds; and (v) the payment of certain costs incurred in connection with the issuance of the 2007 Bonds, including fees related to credit enhancement and liquidity enhancement.

“2007 Reserve Fund Surety Bonds” means the surety bonds issued by the 2007 Surety Bond Provider, and its successors.

“2007 Surety Bond Provider” means Financial Security Assurance Inc., a New York stock insurance company.

“2007 Swap Counterparty” means PNC Bank, National Association, or its successors and assigns, in its capacity as counterparty with respect to the 2007 Interest Rate Swap Agreement.

“2007 Swap Insurance Policy” means the financial guaranty insurance policy issued by the 2007 Swap Insurer in respect of the Insured Swap Payments.

“2007 Swap Insurer” means Financial Security Assurance Inc., a New York stock insurance company.

“Uninsured Swap Payments” means any payment required to be made by the Authority to the 2007 Swap Counterparty pursuant to the 2007 Interest Rate Swap Agreement, except Insured Swap Payments.

“United States Government Obligations” means (i) bonds, notes, certificates of indebtedness, treasury bills or other securities constituting direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed as to full and timely payment by, the United States of America, including evidences of a direct ownership interest in future interest or principal payments on obligations issued or guaranteed by the United States of America, or securities which represent an undivided interest in such obligations, which obligations are rated in the highest rating category by each Rating Agency, and such obligations are held in a custody account by a custodian satisfactory to the Trustee and (ii) senior debt obligations of government sponsored agencies approved in writing by the 2007 Bond Insurer.

“Value,” as of any particular time of determination, means,

- (a) for securities:
 - (1) the closing bid price quoted by Interactive Data Systems, Inc.; or
 - (2) a valuation performed by a nationally recognized and accepted pricing service acceptable to the 2007 Bond Insurer whose valuation method consists of the composite average of various bid price quotes on the valuation date; or
 - (3) the lower of two dealer bids on the valuation date; the dealers or their parent holding companies must be rated at least investment grade by Moody’s and S&P and must be market makers in the securities being valued; or
 - (4) a valuation performed by a pricing service acceptable to the Trustee and the 2007 Bond Insurer; or
 - (5) for any security maturing within 30 days of the valuation date, the maturity value of the security including interest to be paid on the maturity date.
- (b) as to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest;
- (c) with respect to any investment agreement, the total amount that may be withdrawn therefrom for the purposes of the fund in which it is held; and
- (d) as to any investment not specified above, the value thereof established by prior agreement between the Authority, the Trustee and the 2007 Bond Insurer.

“Weekly Interest Period” means each period described in the Indenture during which the Weekly Rate Bonds bear interest at a particular Weekly Rate.

“Weekly Rate” means the per annum interest rate for the Weekly Rate Bonds during a Weekly Interest Period determined on a weekly basis as provided in the Indenture.

“Weekly Rate Bonds” means any series of Bonds bearing interest at a Weekly Rate.

“Weekly Rate Period” means, with respect to Weekly Rate Bonds, the period during which Weekly Rates are in effect for the Weekly Rate Bonds.

“Written Request” means a request in writing signed by the Authority Representative or any other officers designated by the Authority to sign such Written Request.

Source of Payment of Bonds; Trust Estate. The 2007 Bonds, together with any Additional Bonds issued pursuant to the Indenture are limited obligations of the Authority payable solely from the Trust Estate. In order to secure equally and ratably (i) the payment of the principal of and redemption premium, if any, and interest on all of the Bonds issued and Outstanding under the Indenture from time to time according to their tenor and effect and to secure the performance and observance by the Authority of all the covenants, agreements and conditions contained in the Indenture and in the Bonds, (ii) the payment of all amounts due to the 2007 Swap Counterparty (except Uninsured Swap Payments) pursuant to the 2007 Interest Rate Swap Agreement, (iii) the payment of all amounts due to the Liquidity Provider pursuant to

the Liquidity Facility, and (iv) subordinate to payments due in respect of clauses (i), (ii) and (iii), the payment of Uninsured Swap Payments due to the 2007 Swap Counterparty pursuant to the 2007 Interest Rate Swap Agreement pursuant to the Indenture, the Authority has pledged and assigned, and granted a security interest to the Trustee, for the benefit of the Bondowners, the 2007 Swap Counterparty and the Liquidity Provider, and their respective successors and assigns, the following (the “Trust Estate”):

(a) All right, title and interest of the Authority (including the right to enforce any of the terms regarding the receipt thereof) in and to the Special Revenues; and

(b) All right, title and interest of the Authority (including the right to enforce any of the terms regarding the receipt thereof) in and to the Swap Receipts; and

(c) All right, title and interest of the Authority (including the right to enforce any of the terms thereof) in, to and under the Commonwealth Lease, and all payments derived by the Authority from the Commonwealth including Commonwealth Lease Payments and other amounts to be received by the Authority and paid by the Commonwealth under and pursuant to and subject to the Commonwealth Lease; and

(d) All moneys and securities from time to time held by the Trustee under the terms of the Indenture (other than the Rebate Fund and the Uninsured Swap Payment Fund).

Additional Bonds. In addition to the 2007 Bonds, from time to time, the Authority may issue Additional Bonds under the Indenture for any purpose for which the Authority is permitted to issue bonds under the Act, subject to such further limitations as are set forth in the Indenture. No issuance of Additional Bonds may occur should any Event of Default have occurred and be continuing unless the issuance of such Additional Bonds will cure such Event of Default. The approval of the Governor of the Commonwealth of Pennsylvania and a Supplemental Lease pursuant to which the Commonwealth agrees to make lease payments at least sufficient to pay all principal and interest due on the Additional Bonds shall be required for the issuance of any Additional Bonds. In addition, the written consent of the 2007 Bond Insurer (if the 2007 Bond Insurance Policy, the 2007 Swap Insurance Policy or the 2007 Reserve Fund Surety Bond will remain in effect after the issuance of the Additional Bonds or if any amounts are owed to the 2007 Bond Insurer, 2007 Swap Insurer, or 2007 Surety Bond Provider) shall also be required for the issuance of Additional Bonds; provided, however, that no such consent will be required in the event that such Additional Bonds are (i) issued to complete the Arena Project and (ii) the aggregate principal amount of such Additional Bonds is not greater than 10% of the original aggregate principal amount of the 2007 Bonds. In connection with the issuance of Additional Bonds, the Authority may, with the prior written consent of the 2007 Bond Insurer and the 2007 Swap Insurer, also enter into a Derivative Contract, which may be granted a parity lien on the Trust Estate to the same extent as the lien granted to the Additional Bonds.

Funds and Accounts. The Indenture creates the following special trust funds to be held by the Trustee in the name of the Authority:

(a) “Sports & Exhibition Authority of Pittsburgh and Allegheny County, Series of 2007 Clearing Fund” (the “Clearing Fund”). The Clearing Fund shall include a Series A Account and a Series B Account.

(b) “Sports & Exhibition Authority of Pittsburgh and Allegheny County Series of 2007 Revenue Fund (the “Revenue Fund”). The Revenue Fund shall include an Arena Lease Revenue Account, a Casino Operator Revenue Account, an Economic Development and Tourism Fund Revenue Account, a Commonwealth Lease Revenue Account, a Series A Swap Revenue

Account and a Series B Swap Revenue Account. The Arena Lease Revenue Account, the Casino Operator Revenue Account and the Economic Development and Tourism Fund Revenue Account are collectively referred to in the Indenture as the “Special Revenue Accounts.”

(c) “Sports & Exhibition Authority of Pittsburgh and Allegheny County Series of 2007 Project Fund (the “Project Fund”). The Project Fund shall include a Series A Account, a Series A Capitalized Interest Account, a Series B Account and a Series B Capitalized Interest Account.

(d) “Sports & Exhibition Authority of Pittsburgh and Allegheny County Series of 2007 Debt Service Fund” (the “Debt Service Fund”). The Debt Service Fund shall include a Series A Account, a Series B Account, a Liquidity Facility Account, a Series A Insured Swap Payment Account and a Series B Insured Swap Payment Account.

(e) “Sports & Exhibition Authority of Pittsburgh and Allegheny County Series of 2007 Expense Fund” (the “Expense Fund”). The Expense Fund shall include a Series A Account and a Series B Account.

(f) “Sports & Exhibition Authority of Pittsburgh and Allegheny County Series of 2007 Supplemental Reserve Fund” (the “Supplemental Reserve Fund”). The Supplemental Reserve Fund shall include a Series A Account and a Series B Account.

(g) “Sports & Exhibition Authority of Pittsburgh and Allegheny County Series of 2007 Debt Service Reserve Fund” (the “Debt Service Reserve Fund”). The Debt Service Reserve Fund shall include a Series A Account and a Series B Account.

(h) “Sports & Exhibition Authority of Pittsburgh and Allegheny County Series of 2007 Uninsured Swap Payment Fund” (the “Uninsured Swap Payment Fund”). The Uninsured Swap Payment Account shall include a Series A Account and a Series B Account.

(i) “Sports & Exhibition Authority of Pittsburgh and Allegheny County Series of 2007 Series A Rebate Fund (the “Rebate Fund”).

Deposit of Bond Proceeds and Other Moneys. The Authority, for and on behalf of the Authority, shall cause the net purchase price of the 2007 Bonds by the Original Purchaser to be paid to the Trustee and the Trustee shall deposit such proceeds to the Clearing Fund. Any proceeds of Additional Bonds shall be deposited as set forth in the Supplemental Indenture pertaining thereto.

Clearing Fund. Moneys on deposit in the Clearing Fund shall be paid from the Clearing Fund by the Trustee as set forth in the Closing Receipt executed and delivered by the Authority and/or one or more certificates of the Authority Representative, to pay the costs of the 2007 Project and Costs of Issuance set forth therein.

Project Fund And Disbursement Procedure.

(a) All moneys required to be deposited to the credit of the Project Fund by the provisions of the Indenture shall be deposited into the appropriate Account in the Project Fund and held in trust by the Trustee as security for the Bonds issued under the Indenture and disbursed by the Trustee in payment of the Costs of the Project. The Authority may from time to time provide written direction to the Trustee to establish such other accounts or subaccounts within the Project Fund as the Authority shall deem necessary.

(b) Without any further direction from the Authority, and unless otherwise directed by the Authority, the Trustee shall transfer, (i) commencing on November 1, 2007 and on each May 1 and November 1 thereafter, from the Series A Capitalized Interest Account of the Project Fund to the Series A Insured Swap Payment Account of the Debt Service Fund an amount sufficient to pay the Insured Swap Payment with respect to the Series A Bonds on such date, such transfers to be made until all amounts on deposit in such account have been withdrawn, and (ii) commencing on November 1, 2007 and on each May 1 and November 1 thereafter, from the Series B Capitalized Interest Account of the Project Fund to the Series B Insured Swap Payment Account of the Debt Service Fund an amount sufficient to pay the Insured Swap Payment with respect to the Series B Bonds on such date, such transfers to be made until all amounts on deposit in such account have been withdrawn. Without further direction from the Authority, and unless otherwise directed by the Authority, the Trustee shall transfer, (i) commencing on November 1, 2007 and thereafter on each Interest Payment Date for the Series A Bonds, from the Series A Capitalized Interest Account of the Project Fund to the Series A Account of the Debt Service Fund such amount as may be required by the Indenture, and (ii) commencing on November 1, 2007 and thereafter on each Interest Payment Date for the Series B Bonds, from the Series B Capitalized Interest Account of the Project Fund to the Series B Account of the Debt Service Fund such amount as may be required by the Indenture. All investment earnings on the Series A Capitalized Interest Account of the Project Fund shall be transferred to the Series A Project Account of the Project Fund as received. All investment earnings on the Series B Capitalized Interest Account of the Project Fund shall be transferred to the Series B Project Account of the Project Fund as received.

(c) Amounts on deposit in the Series A Project Account and in the Series B Project Account shall be used to pay the Costs of the Project relating to the Arena Project. After completion of the Arena Project, and compliance with the Indenture, amounts on deposit in either Project Account or transferred to either Project Account may, at the written direction of the Authority, be used for additional capital projects related to the Arena as the Authority may determine from time to time. Before each such withdrawal and payment from the Project Fund by the Trustee (other than for payments from the Capitalized Interest Accounts for which no requisition, direction or instruction shall be required), the Authority shall deliver to the Trustee a requisition signed by the Executive Director or any officer of the Authority. Upon the receipt of each such requisition, the Trustee shall pay to the Authority the aggregate amount of the payments and the Authority shall pay to the Persons named in such requisition, the respective amounts stated therein to be due to such Persons.

(d) Promptly after the completion of each project for which an Account has been established in the Project Fund, the Authority shall deliver to the Trustee an Officers' Certificate to the effect that such project has been completed, specifying the date of such completion and that all amounts due in respect of the project for which funds were on deposit in the Project Fund have been paid, and specifying the proposed use of any remaining balance. Upon receipt by the Trustee of such Certificate, and upon receipt by the Trustee of a Favorable Opinion of Bond Counsel to the effect that the proposed use of the remaining balance will not cause a default under the Indenture and will not adversely affect the tax-exempt status of the interest payable on the then Outstanding Series A Bonds or other Bonds the interest on which is tax-exempt, the balance remaining in such Account shall be transferred by the Trustee as directed in such Officers' Certificate. Upon commencement of the term of the Arena Lease, the Authority shall be entitled to withdraw from the Series B Project Account an amount not to exceed \$3,000,000 (or such lesser amount as shall be then on deposit in the Series B Project Account) for deposit into a capital reserve fund to be established by the Authority, which capital reserve fund shall not constitute part of the Trust Estate and shall not be held by the Trustee. In addition, the Authority

shall be entitled to withdraw from the Series B Project Account on or about October 2, 2010 an additional amount not to exceed \$6,120,000 for payment of the amounts required to be paid by the Authority pursuant to the Arena Lease, which amount shall be disbursed by the Trustee upon receipt by the Trustee of an Officer's Certificate stating that such amount is due and payable pursuant to the Arena Lease.

Revenue Fund. The moneys in the Revenue Fund shall be held by the Trustee in trust and applied as follows:

(a) There shall be deposited into the appropriate accounts of the Revenue Fund all Special Revenues which the Trustee receives from the Authority or from any other source, Commonwealth Lease Payments and Swap Receipts.

(b) The Authority will direct the payors of the Special Revenues to pay such Special Revenues directly to the Trustee, and the Authority covenants that any Special Revenues which it receives will be transferred immediately upon the Authority's receipt thereof to the Trustee for deposit into the Revenue Fund and such Special Revenues will not be deposited in any fund or account containing other funds of the Authority. The Trustee shall deposit all Special Revenues received by the Trustee into the Arena Lease Revenue Account, the Casino Operator Revenue Account, and the Economic Development and Tourism Fund Revenue Account, as applicable. Any transfers to be made from the Casino Operator Revenue Account and the Economic Development and Tourism Revenue Account shall be made by withdrawing from each of such accounts a pro rata amount in proportion to the relative values in such accounts, unless the Authority shall otherwise direct in writing. In addition to the other transfers from the Special Revenue Accounts, beginning on or about May 4, 2009 and on or about May 4 of each year thereafter (i) to the extent that the aggregate amount on deposit in the Casino Operator Revenue Account and the Economic Development and Tourism Fund Revenue Account is in excess of \$100,000 (or such lesser amount as shall be approved in writing by the 2007 Bond Insurer), the Trustee shall transfer such excess amount from such accounts (withdrawing from each of such accounts a pro rata amount in proportion to the relative values in such accounts, unless the Authority shall otherwise designate in writing) to the Series A Account of the Supplemental Reserve Fund and (ii) to the extent that the aggregate amount on deposit in the Arena Lease Revenue Account is in excess of \$40,000 (or such lesser amount as shall be approved by the 2007 Bond Insurer), the Trustee shall transfer such excess amount from such account to the Series B Account of the Supplemental Reserve Fund.

(c) The Authority will direct the Commonwealth to pay all amounts due under the Commonwealth Lease directly to the Trustee, and the Authority covenants that any Commonwealth Lease Payments which it receives will be transferred immediately upon receipt to the Trustee for deposit into the Revenue Fund and will not be deposited in any fund or account containing other funds of the Authority. The Trustee shall deposit all Commonwealth Lease Payments into the Commonwealth Lease Revenue Account; provided, however, that any amount paid by the Commonwealth as a result of an Uninsured Swap Payment shall be transferred immediately upon receipt to the Uninsured Swap Payment Fund; provided, further, however, that if amounts are owed to the 2007 Bond Insurer, the 2007 Swap Counterparty (other than Uninsured Swap Payments), the 2007 Swap Insurer, the Liquidity Provider or the Reserve Fund Surety Provider, such amounts paid by the Commonwealth shall be first applied to pay the amounts owed to each such party prior to any required transfer to the Uninsured Swap Payment Fund. Anything in the Indenture to the contrary notwithstanding, the payment of any Uninsured Swap Payments is expressly subordinate to the payment of all amounts due to the Bondholders,

the 2007 Bond Insurer, the 2007 Swap Counterparty (other than Uninsured Swap Payments), the 2007 Swap Insurer, the Liquidity Provider and the Reserve Fund Surety Provider.

(d) The Authority will direct the 2007 Swap Counterparty to pay all Swap Receipts directly to the Trustee, and that any Swap Receipts which it receives will be transferred immediately upon receipt to the Trustee for deposit into the Revenue Fund and will not be deposited in any fund or account containing other funds of the Authority. The Trustee shall deposit all Swap Receipts received by it pursuant to the 2007 Interest Rate Swap Agreement relating to the Series A Bonds into the Series A Swap Revenue Account and relating to the Series B Bonds into the Series B Swap Revenue Account. In addition to the other transfers from the Series A Swap Revenue Account and the Series B Swap Revenue Account required in the Indenture, beginning on or about May 4, 2009 and on or about May 4 of each year thereafter, to the extent that the amount on deposit in the Series A Swap Revenue Account is in excess of \$50,000 (or such lesser amount as shall be approved in writing by the 2007 Bond Insurer) or the amount on deposit in the Series B Swap Revenue Account is in excess of \$50,000 (or such lesser amount as shall be approved in writing by the 2007 Bond Insurer), the Trustee is required to transfer such excess amount from such accounts to the Series A Account of the Supplemental Reserve Fund or the Series B Account of the Supplemental Reserve Fund, as applicable.

Debt Service Fund.

(a) The Trustee shall make deposits and credits to the Debt Service Fund, as and when received, in the following order and priority:

(i) Commencing on November 1, 2007 and continuing on each Interest Payment Date for the Series A Bonds, the Trustee shall transfer from the Series A Swap Revenue Account of the Revenue Fund to the Series A Account of the Debt Service Fund an amount sufficient to pay the interest due on the Series A Bonds on such Interest Payment Date. To the extent that sufficient funds are not available in the Series A Account of the Debt Service Fund or the Series A Swap Revenue Account to make such payments after such transfers, the Trustee shall withdraw funds first from the Series A Capitalized Interest Account of the Project Fund, second from the Casino Operator Revenue Account of the Revenue Fund and the Economic Development and Tourism Account of the Revenue Fund, third from the Series A Account of the Supplemental Reserve Fund, and fourth from the Series A Account of the Debt Service Reserve Fund to make up such insufficiency. The Trustee shall use the amounts on deposit in the Series A Account of the Debt Service Fund to pay interest on the Series A Bonds on each Interest Payment Date.

(ii) Commencing on November 1, 2007 and continuing on each Interest Payment Date for the Series B Bonds, the Trustee shall transfer from the Series B Swap Revenue Account of the Revenue Fund to the Series B Account of the Debt Service Fund an amount sufficient to pay the interest due on the Series B Bonds on such Interest Payment Date. To the extent that sufficient funds are not available in the Series B Account of the Debt Service Fund or the Series B Swap Revenue Account to make such payments after such transfers, the Trustee shall withdraw funds first from the Series B Capitalized Interest Account of the Project Fund, second from the Arena Lease Revenue Account of the Revenue Fund, third from the Series B Supplemental Reserve Fund, and fourth from the Series B Account of the Debt Service Reserve Fund to make up such insufficiency. The Trustee shall use the amounts on deposit in the Series B Account of

the Debt Service Fund to pay interest on the Series B Bonds on each Interest Payment Date.

(iii) On each November 1, commencing November 1, 2008, the Trustee shall transfer from the Casino Revenue Account of the Revenue Fund and the Economic Development and Tourism Fund Account of the Revenue Fund to the Series A Account of the Debt Service Fund, an amount sufficient to pay the principal due, whether by maturity or mandatory sinking fund redemption, on the Series A Bonds on such November 1. To the extent that sufficient funds are not available in the Series A Account to pay principal on the Series A Bonds on such November 1 after such transfer, the Trustee shall withdraw funds first from the Series A Account of the Supplemental Reserve Fund and second from the Series A Account of the Debt Service Reserve Fund to make up such insufficiency. The Trustee shall use the amounts on deposit in the Series A Account of the Debt Service Fund to pay principal on the Series A Bonds on each November 1.

(iv) On each November 1, commencing November 1, 2010, the Trustee shall transfer from the Arena Lease Revenue Account of the Revenue Fund to the Series B Account of the Debt Service Fund an amount sufficient to pay the principal due, whether by maturity or mandatory sinking fund redemption, on the Series B Bonds on such November 1. To the extent that sufficient funds are not available in the Series B Account of the Debt Service Fund to pay principal on the Series B Bonds on such November 1 after such transfer, the Trustee shall withdraw funds first from the Series B Account of the Supplemental Reserve Fund and second from the Series B Account of the Debt Service Reserve Fund to make up such insufficiency. The Trustee shall use the amounts on deposit in the Series B Account of the Debt Service Fund to pay principal on the Series B Bonds on each November 1.

(v) Commencing on November 1, 2007 and continuing on each May 1 and November 1 until all amounts in the Series A Capitalized Interest Account of the Project Fund have been depleted, the Trustee shall make the transfers from the Series A Capitalized Interest Account of the Project Fund to the Series A Insured Swap Payment Account of the Debt Service Fund in an amount sufficient to pay the Insured Swap Payment due pursuant to the 2007 Interest Rate Swap Agreement relating to the Series A Bonds on such May 1 and November 1. On each May 1 and November 1, the Trustee shall transfer from the Casino Operator Revenue Account of the Revenue Fund and the Economic Development and Tourism Account of the Revenue Fund, to the Series A Insured Swap Payment Account of the Debt Service Fund an amount sufficient (after taking into account funds on deposit in such account) to pay any Insured Swap Payments due on the portion of the 2007 Interest Rate Swap Agreement relating to the Series A Bonds on such May 1 and November 1. To the extent that sufficient funds are not available in the Series A Insured Swap Payment Account of the Debt Service Fund to pay such Insured Swap Payments on such May 1 or November 1 after such transfer, the Trustee shall withdraw funds first from the Series A Capitalized Interest Account, second from the Series A Account of the Supplemental Reserve Fund and third from the Series A Account of the Debt Service Reserve Fund to make up such insufficiency.

(vi) Commencing on November 1, 2007 and continuing on each May 1 and November 1 until all amounts in the Series B Capitalized Interest Account of the Project Fund have been depleted, the Trustee shall make the transfers from the Series B Capitalized Interest Account of the Project Fund to the Series B Insured Swap Payment

Account of the Debt Service Fund in an amount sufficient to pay the Insured Swap Payment due pursuant to the 2007 Interest Rate Swap Agreement relating to the Series B Bonds on such May 1 and November 1. On each May 1 and November 1, commencing November 1, 2010, the Trustee shall transfer from the Arena Lease Account of the Revenue Fund, to the Series B Insured Swap Payment Account of the Debt Service Fund an amount sufficient (after taking into account funds on deposit in such account) to pay any Insured Swap Payments due on the 2007 Interest Rate Swap Agreement relating to the Series B Bonds on such May 1 and November 1. To the extent that sufficient funds are not available in the Series B Insured Swap Payment Account of the Debt Service Fund to pay the Insured Swap Payments on such May 1 or November 1 after such transfers, the Trustee shall withdraw funds first from the Series B Capitalized Interest Account of the Project Fund, second from the Series B Supplemental Reserve Fund and third from the Series B Account of the Debt Service Reserve Fund to make up such insufficiency.

(b) At any time that a Liquidity Facility is in effect which requires the payment of funds by the Liquidity Provider for payment of principal and interest on any series of Bonds, as the same shall become due (other than the Initial Liquidity Facility and any other Liquidity Facility which only supports the payment of the Purchase Price of such Bonds):

(i) any amounts drawn under the Liquidity Facility for the payment of the principal of or premium, if any, or interest on such Bonds shall be held in the Liquidity Facility Account and shall not be commingled with moneys held by the Trustee.

(ii) the Trustee, prior to each Interest Payment Date and each date on which principal is due and payable on such Bonds (whether at maturity or upon proceedings for redemption, or by acceleration), shall draw on the Liquidity Facility an amount which shall be sufficient for the purpose of paying the principal of, and premium if any (if the Liquidity Facility then covers premium) and interest due and payable on such Bonds (other than Liquidity Provider Bonds and Authority Bonds) on such payment date; provided that the amount of any draw with respect to the redemption of such Bonds shall be the amount required to effect such redemption after taking into account any other moneys available to the Trustee other than proceeds of draws under the Liquidity Facility. Such drawing shall be made in a timely manner under the terms of the Liquidity Facility, but not later than the times specified in the Liquidity Facility in order that the Trustee may realize funds thereunder in sufficient time to pay Owners on the applicable payment date as provided in the Indenture. So long as the Liquidity Facility is in force, the Trustee shall deposit all moneys received pursuant to each draw on the Liquidity Facility in the Liquidity Facility Account of the Debt Service Fund and shall apply such moneys to the payment of the principal of and interest on or redemption price of such Bonds. Moneys in the Debt Service Fund (other than moneys in the Liquidity Facility Account of the Debt Service Fund), shall be used immediately to reimburse the Liquidity Provider for draws on the Liquidity Facility that were used for such purpose and to pay obligations owing to the Liquidity Provider then due and payable.

(iii) To the extent that any interest due and payable on such Bonds on any Interest Payment Date or any other date on which principal is due and payable (whether at maturity or upon proceedings for redemption, or by acceleration), cannot be determined by the Trustee as of the time the draw must be submitted to the Liquidity Provider under the terms of the Liquidity Facility, the Trustee shall draw moneys under

the Liquidity Facility in an amount sufficient to pay such interest as if the Maximum Rate was in effect for the period for which the interest rate cannot be determined.

(c) The Authority authorizes and directs the Trustee to withdraw sufficient funds from the respective Capitalized Interest Accounts of the Project Fund and the Debt Service Fund to pay principal of and redemption premium, if any, and interest on the Bonds and to pay amounts due for Insured Swap Payments as the same become due and payable and to make said funds so withdrawn available to the Trustee and any Paying Agent for the purpose of paying said principal, redemption premium, if any, and interest and Insured Swap Payments.

(d) Whenever there is on deposit in the Debt Service Fund moneys sufficient to redeem all of the Bonds Outstanding and to pay interest to accrue thereon prior to such redemption and redemption premium, if any, and to pay all Insured Swap Payments and all amounts due under any Liquidity Facility, the Trustee shall, upon Written Request of the Authority Representative, take and cause to be taken the necessary steps to redeem all such Bonds on the next succeeding redemption date for which the required redemption notice may be given or on such later redemption date as may be specified by the Authority.

(e) References to payment of principal, interest and redemption price shall include, without limitation, Liquidity Provider Bonds.

Expense Fund. With respect to the 2007 Bonds, the Expense Fund shall initially be funded at closing by a deposit to the Series A Account in the amount of \$467,843.29 from proceeds of the Series A Bonds and by a deposit to the Series B Account in the amount of \$617,191.17 from proceeds of the Series B Bonds to fund initial capitalized Ongoing Fees and Transaction Expenses with respect to each series of the 2007 Bonds until such time as Special Revenues are available therefor (the "Initial Balance"). On May 4 and November 4 of each year, commencing November 4, 2008 with respect to the Series A Account and November 4, 2010 with respect to the Series B Account, the Trustee shall transfer from the Special Revenue Accounts (with respect to the Series A Bonds, the Casino Operator Revenue Account and the Economic Development and Tourism Fund Revenue Account, and with respect to the Series B Bonds, the Arena Lease Revenue Account), to the extent the Initial Balance monies are no longer available in the corresponding account within the Expense Fund, an amount sufficient to pay the Ongoing Fees and Transaction Expenses for the current Commonwealth Fiscal Year applicable to such series of Bonds and deposit such amount into the corresponding account within the Expense Fund. The amounts to be paid as Ongoing Fees and Transaction Expenses shall be set forth in a Certificate of an Authority Representative delivered to the Trustee prior to each May 2 and November 2. Such amount may be revised upward or downward at the written direction of the Authority from time to time in order to match any change in the amounts of the fees and expenses to be paid. No minimum or maximum amount shall be required to be maintained in the Expense Fund. Amounts on deposit in an account within the Expense Fund shall be used by the Trustee, at the written direction of the Authority, to pay the Ongoing Fees and Transaction Expenses associated with the appropriate series of Bonds. In the event that the amounts on deposit in such accounts are not sufficient to make such payments, the Trustee shall make a transfer, in the case of the Series A Account, first from the Series A Account of the Supplemental Reserve Fund and second from Series A Account of the Debt Service Reserve Fund to the extent required to make up any such insufficiency, and in the case of the Series B Account, first from the Series B Account of the Supplemental Reserve Fund and second from Series B Account of the Debt Service Reserve Fund to the extent required to make up any such insufficiency.

Supplemental Reserve Fund. The Series A Account of the Supplemental Reserve Fund shall initially be funded in the amount of \$1,005,538.44 from the proceeds of the Series A Bonds and the Series B Account of the Supplemental Reserve Fund shall initially be funded in the amount of \$244,461.56 from

the proceeds of the Series B Bonds. The amount on deposit in the Series A Account of the Supplemental Reserve Fund shall be maintained at an amount not less than \$804,430.75 and the amount on deposit in the Series B Account of the Supplemental Reserve Fund shall be maintained at an amount not less than \$195,569.25 (the "Special Reserve Requirement"). The Special Reserve Requirement may be reduced at any time and from time to time with the prior written consent of the Authority and the 2007 Bond Insurer. On May 4 of each year, the Trustee shall transfer any amounts on deposit in the Series A Swap Revenue Account of the Revenue Fund (in excess of any amounts required to be transferred that day to the Series A Account of the Debt Service Fund) to the Series A Account of the Supplemental Reserve Fund and any amount on deposit in the Series B Swap Revenue Account of the Revenue Fund (in excess of any amounts required to be transferred that day to the Series B Account of the Debt Service Fund) to the Series B Account of the Supplemental Reserve Fund, and shall also make any transfer from the Special Revenue Accounts to the appropriate account of the Supplemental Reserve Fund. Amounts on deposit in the Series A Account of the Supplemental Reserve Fund shall be used to replenish any deficiency in any of the Series A Account or Series A Insured Payment Swap Account of the Debt Service Fund, the Series A Account of the Debt Service Reserve Fund or the Series A Account of the Expense Fund, and amounts on deposit in the Series B Account of the Supplemental Reserve Fund shall be used to replenish any deficiency in any of the Series B Account or Series B Insured Payment Swap Account of the Debt Service Fund, the Series B Account of the Debt Service Reserve Fund or the Series B Account of the Expense Fund. Each account of the Supplemental Reserve Fund shall be maintained at an amount not less than the Special Reserve Requirement applicable to such account. In the event that the amount in an account of the Supplemental Reserve Fund is at any time less than the applicable Special Reserve Requirement, the Trustee shall transfer funds first from the Series A Account of the Project Fund to the Series A Account of the Supplemental Reserve Fund and from the Series B Account of the Project Fund to the Series B Account of the Supplemental Reserve Fund (provided, however, that no such transfer shall be made from the Project Fund unless and until an Officer's Certificate concerning completion of the Arena Project has been received by the Trustee, and further provided, in the case of a transfer from the Series B Account of the Project Fund, that the withdrawals from the Series B Account of the Project Fund described in the last two sentences of Section 4.04(d) of the Indenture have been made or that moneys remain in the Series B Account of the Project Fund sufficient to fund such withdrawals) and second from the Commonwealth Lease Revenue Account to make up any insufficiency therein. At any time the amount on deposit in the Series A Account of the Supplemental Reserve Fund is greater than \$1,005,538.44 (or such other amount as may be agreed to by the Authority and the 2007 Bond Insurer), all amounts in excess of \$1,005,538.44 shall be transferred to the Series A Account of the Project Fund. At any time the amount on deposit in the Series B Account of the Supplemental Reserve Fund is greater than \$244,461.56 (or such other amount as may be agreed to by the Authority and the 2007 Bond Insurer), all amounts in excess of \$244,461.56 shall be transferred to the Series B Account of the Project Fund.

Debt Service Reserve Fund.

(a) On the date of issuance of any series of Bonds, the Authority shall direct the Trustee, and the Trustee shall, transfer from the Clearing Fund to the Debt Service Reserve Fund an amount which will cause the amount on deposit in the Debt Service Reserve Fund to equal the Reserve Requirement, if any, for all Bonds which will be Outstanding immediately after the issuance of such Bonds. With respect to the 2007 Bonds, the Reserve Requirement for the 2007 Bonds shall be initially funded at closing by (i) a deposit of \$14,796,411.00 of proceeds from the Series A Bonds into a Series A Account and (ii) a deposit of a Reserve Fund Surety Bond in the amount of \$8,600,217.72 into a Series B Account.

(b) At such time as the Casino Operator Agreement is in effect, the Authority shall be entitled to replace a cash amount equal to \$7,398,205.50 on deposit in the Series A Account with a Reserve Fund Surety Bond in the amount of \$14,850,140.00, which cash amount (after

deduction of the amount required to pay for the Reserve Fund Surety Bond) shall be transferred to the Series A Account of the Project Fund. At such time as an agreement relating to the disbursement of the Economic Development and Tourism Fund is in effect, the Authority shall be entitled to replace a cash amount equal to \$7,398,205.50 on deposit in the Series A Account with a Reserve Fund Surety Bond in the amount of \$14,850,140.00 which cash amount (after deduction of the amount required to pay for the Reserve Fund Surety Bond) shall be transferred to the Series A Account of the Project Fund. Any replacement of cash for a Reserve Fund Surety Bond shall be done by the delivery by the Authority to the Surety Bond Provider and the 2007 Bond Insurer (with a copy to the Trustee), of a Certificate in the form attached to the Indenture. Each Reserve Fund Surety Bond shall be in an amount sufficient to meet its allocable portion of the Reserve Requirement and as shall be approved by the 2007 Bond Insurer, which approval shall not be unreasonably withheld.

(c) Moneys held for the credit of the Debt Service Reserve Fund shall be used for the purpose of (i) paying interest on, the maturing principal and the mandatory sinking fund redemption price of the Bonds, and (ii) making the Insured Swap Payments to the 2007 Swap Counterparty, whenever and to the extent that the moneys held for the credit of the Debt Service Fund shall be insufficient for such purpose. In the event that the transfers required to be made from the Revenue Fund are not sufficient to pay the principal of and redemption price of and interest on the Bonds and the Insured Swap Payment as and when due, the Trustee shall transfer from the Debt Service Reserve Fund to the Debt Service Fund the amount necessary to cure such insufficiency. Moneys for the credit of the Debt Service Reserve Fund shall also be transferred to the Expense Fund to the extent that the moneys held for the credit of the Expense Fund are not sufficient to pay the amounts payable therefrom. In the case of the 2007 Bonds, draws from the Debt Service Reserve Fund for payment of interest on, the maturing principal and the mandatory sinking fund redemption price of the Series A Bonds, for the Series A Bonds Insured Swap Payment with respect to the Series A Bonds, and for deposit into the Series A Account of the Expense Fund shall be made from the Series A Account of the Debt Service Reserve Fund, and draws from the Debt Service Reserve Fund for payment of interest on, the maturing principal and the mandatory sinking fund redemption price of the Series B Bonds, for the Series B Bonds Insured Swap Payment with respect to the Series B Bonds, and for deposit into the Series B Account of the Expense Fund shall be made from the Series B Account of the Debt Service Reserve Fund. When any Reserve Fund Surety Bond is in effect, after first withdrawing moneys constituting cash and investments on deposit therein, (i) the Trustee shall make such transfer by drawing on the Reserve Fund Surety Bond and (ii) any amounts received to replenish the Debt Service Reserve Fund shall be paid to the provider of the Reserve Fund Surety Bond to the extent necessary to reinstate the amount available to be drawn down on the Reserve Fund Surety Bond to the Reserve Requirement prior to the replenishment of any cash or investment withdrawn from the Debt Service Reserve Fund. The withdrawal of moneys from the Debt Service Reserve Fund shall not constitute an Event of Default under the Indenture or under the Bonds.

(d) In the event that the amount on deposit in the Debt Service Reserve Fund is less than the Reserve Requirement, the Trustee shall transfer first from the Supplemental Reserve Fund, second from the Special Revenue Accounts (with respect to the 2007 Bonds, from the Casino Operator Revenue Account and the Economic Development and Tourism Fund Revenue Account in the case of the Series A Account of the Debt Service Reserve Fund, and from the Arena Lease Revenue Account in the case of the Series B Account of the Debt Service Reserve Fund) third from the Project Fund (with respect to the 2007 Bonds, from the Series A Account of the Project Fund in the case of the Series A Account of the Debt Service Reserve Fund and from the Series B Account of the Project Fund in the case of the Series B Account of the Debt Service Reserve Fund) (provided, however, that no such transfer shall be made from the Project Fund

unless and until an Officer's Certificate concerning completion of the Arena Project has been received by the Trustee and the Authority has complied with the other terms of the Indenture), and fourth from the Commonwealth Lease Revenue Account, after the transfers required to be made from the Revenue Fund have been made, the amount required to make the funds on deposit in the Debt Service Reserve Fund equal to the Reserve Requirement including amounts necessary to reimburse the providers of Reserve Fund Surety Bonds and thereby reinstate the amounts available to be drawn therefrom. The Trustee shall also transfer to the Debt Service Reserve Fund the amount required by any Supplemental Indenture under which Additional Bonds are issued.

(e) In the event of a draw on the Debt Service Reserve Fund, the Trustee shall provide written notice of the date of the withdrawal and the amount of the withdrawal to the Authority, the Commonwealth and the 2007 Bond Insurer within three Business Days of such withdrawal. The Trustee shall also take such actions as are required pursuant to the Indenture to undertake to obtain funds from the Commonwealth pursuant to the Commonwealth Lease.

(f) Moneys held for the credit of the Debt Service Reserve Fund with respect to a series of Bonds may be used for the purpose of paying maturing principal and mandatory sinking fund redemption price of such series of Bonds, due and payable during the twelve month period prior to the final maturity of the Bonds of such series.

(g) If at any time the moneys held for the credit of the Debt Service Reserve Fund shall exceed the Reserve Requirement, any excess in the Series A Account shall be transferred to the Series A Account of the Project Fund and any excess in the Series B Account shall be transferred to the Series B Account of the Project Fund, unless otherwise directed by the Authority.

(h) As long as the Reserve Fund Surety Bond with respect to the 2007 Bonds shall be in full force and effect, the Authority and the Trustee agree to comply with the following FSA Surety Bond Payment Provisions:

(i) The Authority shall repay any draws under the Reserve Fund Surety Bonds and pay all related reasonable expenses incurred by the 2007 Surety Bond Provider. Interest shall accrue and be payable on such draws and expenses from the date of payment by the 2007 Surety Bond Provider at the Late Payment Rate. "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the 2007 Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the 2007 Surety Bond Provider shall specify.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the 2007 Surety Bond Provider shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the 2007 Surety Bond Provider on account of principal due, the coverage under the Reserve Fund Surety Bond will be increased by a like amount, subject to the terms of the 2007 Reserve Fund Surety Bond.

All cash and investments in the applicable account of the Debt Service Reserve Fund shall be transferred to the Debt Service Fund for payment of debt service on applicable series of the 2007 Bonds before any draw may be made on the Reserve Fund Surety Bond or any other credit facility credited to the Debt Service Reserve Fund in lieu of cash ("Credit Facility"). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Fund Surety Bond) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Debt Service Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Debt Service Reserve Fund.

(ii) If the Authority shall fail to pay any Policy Costs in accordance with the requirements of Paragraph (a) above, the 2007 Surety Bond Provider shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture other than (i) acceleration of the maturity of the 2007 Bonds or (ii) remedies which would adversely affect owners of the 2007 Bonds.

(iii) The Indenture shall not be discharged until all Policy Costs owing to the 2007 Surety Bond Provider shall have been paid in full. The Authority's obligation to pay such amounts shall expressly survive payment in full of the 2007 Bonds.

(iv) The Trustee shall ascertain the necessity for a claim upon the Reserve Fund Surety Bond and provide notice to the 2007 Surety Bond Provider in accordance with the terms of the Reserve Fund Surety Bond at least five business days prior to each date upon which interest or principal is due on the 2007 Bonds.

(i) With respect to the Bonds other than the 2007 Bonds, the Authority may, in lieu of cash, deposit a surety bond, letter of credit or similar instrument (each a "Reserve Fund Surety Bond") into the Debt Service Reserve Fund. Any Reserve Fund Surety Bond provided in lieu of a cash deposit into the Debt Service Reserve Fund shall conform to the following requirements:

(i) The surety bond, insurance policy or similar instrument must be from an insurance company or a surety company that is rated in one of the two highest rating categories by S & P and Moody's, or the letter of credit must be from a bank (the "LOC Bank") approved by the 2007 Bond Insurer.

(ii) The Reserve Fund Surety Bond must be unconditional and irrevocable. If the Reserve Fund Surety Bond can expire earlier than the final maturity of the Bonds with respect to which the Reserve Fund Surety Bond has been delivered, prior written approval of the 2007 Bond Insurer must be obtained.

(iii) If a disbursement is made pursuant to a Reserve Fund Surety Bond, the Authority shall either (A) reinstate the maximum limits of such Reserve Fund Surety Bond, or (B) deposit into the Debt Service Reserve Fund from amounts available after the deposits required by the Indenture have been made, funds in the amount of the disbursement made under such Reserve Fund Surety Bond, or a combination of such alternatives, as shall result in the amount credited to the Debt Service Reserve Fund equaling the Reserve Requirement.

(iv) After the Reserve Fund Surety Bond has been drawn upon, any moneys thereafter paid to the provider thereof must first be used to reinstate the Reserve Fund Surety Bond to its original amount. The payment of any interest or fees payable to the provider of the Reserve Fund Surety Bond, other than reimbursement to the provider of the amounts paid by the provider pursuant to the draw in order to reinstate the Reserve Fund Surety Bond to its original amount prior to the draw, must be subordinate to the payment of any amounts required to be paid for the benefit of the Bondholders.

(v) Amounts under the Reserve Fund Surety Bond shall be payable (upon the giving of one Business Day's notice) on any payment date on which moneys will be required to be withdrawn from the Debt Service Reserve Fund and applied to the payment of the principal of or interest on any Bonds and Insured Swap Payments to the extent that such withdrawals cannot be made by amounts credited to the Debt Service Reserve Fund.

(vi) Neither the Reserve Fund Surety Bond nor any agreement or provision in any document relating thereto shall provide that the provider of such Reserve Fund Surety Bond is subrogated to the rights of Bondowners with respect to any amounts paid with the proceeds of a draw on such Reserve Fund Surety Bond. No provider of a Reserve Fund Surety Bond shall be entitled to file a claim under the 2007 Bond Insurance Policy or to receive proceeds of any such claim.

Rebate Fund. The Rebate Fund shall be held for the benefit of the United States of America and not for the benefit of the Holders of the Bonds, which Holders shall have no rights in or to such fund. The Authority shall calculate and pay the amount required to be paid to the United States of America pursuant to Section 148 of the Internal Revenue Code. The amounts in the Rebate Fund shall not be subject to the claim of any party, including any Bondholder, and shall not be paid to any party other than the United States. In the event the amount in the Rebate Fund is for any reason insufficient to pay to the United States of America the amounts due as calculated, the Authority, or the Trustee at the written direction of the Authority, shall deposit in the Rebate Fund the amount for such deficiency first from the Project Fund, second from the Casino Operator Revenue Account and the Economic Development and Tourism Fund Revenue Account of the Revenue Fund and third from the Commonwealth Lease Revenue Account.

Uninsured Swap Payment Fund. Notwithstanding anything in the Indenture to the contrary, the Uninsured Swap Payment Fund shall not be subject to any security interest, pledge, assignment, lien or charge in favor of the Trustee or any Bondholder or any third party beneficiary hereunder. Upon receipt, any payments representing Uninsured Swap Payments shall be transferred from the Commonwealth Lease Revenue Account of the Revenue Fund to the Uninsured Swap Payment Fund, subject to the terms of the Indenture. The Trustee shall use the moneys in the Uninsured Swap Payment Fund to pay Uninsured Swap Payments to the 2007 Swap Counterparty or as otherwise provided in the Indenture.

Commonwealth Lease Payments.

(a) Pursuant to the Commonwealth Lease, the Commonwealth Lease Payments shall be in an amount sufficient to pay, as and when due, all Rental Payment Obligations. All Commonwealth Lease Payments received by the Trustee shall initially be deposited into the Commonwealth Lease Revenue Account. Within three Business Days of receipt of any Commonwealth Lease Payment, the Trustee shall make the following transfers in the following order of priority from the Commonwealth Lease Revenue Account: first, to the Debt Service Reserve Fund, any amount required to make up any deficiency therein, second, to the Supplemental Reserve Fund to make up any deficiency therein, third, to the Expense Fund to make up any deficiency therein, fourth, to the 2007 Bond Insurer, the 2007 Swap Counterparty, the 2007 Swap Insurer, the 2007 Surety Bond Provider and to the Liquidity Provider to the extent that any amounts are due to such parties (which have not been paid pursuant to clauses first, second and third above, and to the extent that funds are insufficient to reimburse all such parties, on a pro rata basis to such parties) and fifth, to the Uninsured Swap Payment Fund to make up any deficiency therein.

(b) On or before October 5 of each year, the Authority shall provide to the Trustee a Certificate of an Authority Representative stating the estimated total amount of the Rental Payment Obligations due for such Commonwealth Fiscal Year and to be appropriated and paid by the Commonwealth during the next succeeding Commonwealth Fiscal Year (such estimated amount being in the Indenture defined as the "Annual Rent Estimate"). In the event that the Trustee does not receive the Special Revenues in the amounts set forth in the Indenture on or prior to October 1 of each year designated, the Trustee shall send written notice to the Authority, the Commonwealth and the 2007 Bond Insurer not later than October 10 of such year stating the Annual Rent Estimate. Such notice shall state that pursuant to the Commonwealth Lease, the Commonwealth is required to appropriate in its budget for the next succeeding Commonwealth Fiscal Year an amount equal to the Annual Rent Estimate. If the Trustee receives any Special Revenues between October 1 and the next succeeding January 1, the Trustee shall notify the Authority, the Commonwealth and the 2007 Bond Insurer of such amount, and the Commonwealth may amend the Annual Rent Estimate to be appropriated by the amount of such Special Revenues received. Any Special Revenues received by the Trustee after January 1 shall not reduce the Annual Rent Estimate. On or before July 15 of the next succeeding Commonwealth Fiscal Year, the Trustee shall notify the Authority, the Commonwealth and the 2007 Bond Insurer of the actual amount of Rental Payment Obligations due (taking into account any Special Revenues received after January 1 until such notice). Pursuant to the Commonwealth Lease, the Commonwealth shall make a Lease Payment in such amount to the Trustee no later than August 1, which amount shall be deposited into the Commonwealth Lease Revenue Account.

(c) In the event that, after the Trustee receives the payment of the Rental Payment Obligations due on August 1, the Trustee then receives any payments of the Special Revenues which would have reduced the amount payable by the Commonwealth on such August 1, and assuming that the Commonwealth is not in default under the Commonwealth Lease, the Trustee shall notify the Commonwealth and the Authority of such event and, if directed in writing by the Commonwealth, return to the Commonwealth an amount equal to the amount of such Special Revenues received by the Trustee to the Commonwealth in such manner as the Commonwealth shall direct, up to the cumulative amount of Rental Payment Obligations previously paid by the Commonwealth and not previously reimbursed.

Investment of Moneys. Moneys held in each of the funds and accounts under the Indenture shall, pursuant to written direction of an Authority Representative, be invested and reinvested by the Trustee in accordance with the provisions of the Indenture in Permitted Investments which mature or are subject to redemption by the owner thereof prior to the date such funds are expected to be needed, provided that all moneys held by the Trustee in the Liquidity Facility Account that are to be used to pay principal of or interest on or redemption price of Bonds shall be invested only in United States Government Obligations maturing in 30 days or less and not later than the date when such moneys are needed for such payment. Notwithstanding any other provision of the Indenture, if the Trustee fails to receive written directions of the Authority regarding investment of funds, moneys held in any fund or account under the Indenture shall be invested or reinvested in Permitted Investments described in subparagraph 3(e) of the definition thereof. The Trustee may make any investments permitted by the Indenture through its own or its affiliate's bond department or short-term investment department and may pool moneys for investment purposes, except moneys held in the yield-restricted portion of any fund or account, which shall be invested separately. Any such Permitted Investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the fund or account in which such moneys are originally held. Without any further direction from the Authority, and unless otherwise directed in writing by the Authority, the interest accruing on and any profit realized from such Permitted Investments (other than amounts required to be deposited in the Rebate Fund) shall be credited as follows (provided that any loss resulting from such Permitted Investments shall be charged to the fund or account in which it was invested: (i) Series A Account and Series B Account within the Project Fund—earnings shall be retained therein, (ii) Series A Capitalized Interest Account of the Project Fund, Series A Account of the Clearing Fund, Casino Revenue Account of the Revenue Fund, Economic Development and Tourism Fund Revenue Account of the Revenue Fund, Series A Account of the Expense Fund, Series A Account of the Debt Service Fund, Series A Insured Swap Payment Account of the Debt Service Fund, Series A Account of Debt Service Reserve Fund—earnings shall be transferred to the Series A Project Fund as received, (iii) Series B Capitalized Interest Account of the Project Fund, Series B Account of the Clearing Fund, Arena Lease Account of the Revenue Fund, Series B Account of the Expense Fund, Series B Account of the Debt Service Fund, Series B Insured Swap Payment Account of the Debt Service Fund, Series B Account of the Debt Service Reserve Fund—earnings shall be transferred to the Series B Account of the Project Fund as received. The Trustee shall sell and reduce to cash a sufficient amount of such Permitted Investments whenever the cash balance in such fund or account is insufficient for the purposes of such fund or account. The Trustee shall not be responsible for any loss or decrease in value of the investments made pursuant to the Indenture.

Events of Default. If any one or more of the following events occur, it is defined as and declared to be and to constitute an "Event of Default" under the Indenture:

- (a) default in the due and punctual payment of any interest on any Bond when the same becomes due and payable; or
- (b) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when the same becomes due and payable, whether at the stated maturity or accelerated maturity thereof, or upon proceedings for redemption thereof; or
- (c) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Indenture, or the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture or any Supplemental Indenture on the part of the Authority to be performed, and such incapacity or default shall continue for 60 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee (which notice may be given by the Trustee in its discretion and shall be

given at the written request of the 2007 Bond Insurer or the Owners of not less than 10% in aggregate principal amount of the Bonds then Outstanding); provided that, if any such default shall be correctable but is such that it cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within such period and diligently pursued until the default is corrected; or

(d) any Event of Default as specified in the Commonwealth Lease has occurred and is continuing and has not been waived by the Trustee pursuant to the Indenture.

Upon the occurrence of an Event of Default for which the Trustee has received notice pursuant to the Indenture or the Trustee is required to take notice under the Indenture, the Trustee shall, within 30 days give written notice thereof by first class mail to all Bondowners.

In determining whether an Event of Default set forth in (a) or (b) above has occurred or whether a payment on the Bonds has been made under the Indenture, no effect shall be given to payments made under the 2007 Bond Insurance Policy.

Acceleration of Maturity in Event of Default. If an Event of Default shall have occurred and be continuing, the Trustee (i) with the written consent of the 2007 Bond Insurer, may or (ii) if directed in writing by the 2007 Bond Insurer, shall, or (iii) if directed in writing by the Owners of not less than 25% in aggregate principal amount of the Bonds Outstanding and with the written consent of the 2007 Bond Insurer shall, by notice in writing delivered to the 2007 Bond Insurer and the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable; provided that if at any time after the principal of the Bonds then Outstanding shall have so become due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such acceleration or before the completion of the enforcement of any other remedy under the Indenture, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds on overdue installments of interest in respect to which such default shall have occurred, and all arrears of payments of principal when due, as the case may be, and all fees and expenses of the Trustee in connection with such default shall have been paid or duly provided for, then the acceleration of the Bonds then Outstanding and the consequences of such acceleration shall, with the written consent of the 2007 Bond Insurer, be annulled or rescinded, but no such annulment or rescission shall extend to or affect any subsequent acceleration of the Bonds then Outstanding, or impair any right consequent thereon.

Appointment of Receivers in Event of Default. If an Event of Default shall have occurred and be continuing, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondowners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate, pending such proceedings, with such powers as the court making such appointment shall confer.

Exercise of Remedies by the Trustee.

(a) Upon the occurrence of an Event of Default, the Trustee may, with the written consent of the 2007 Bond Insurer, pursue any available remedy at law or equity by suit, action, mandamus or other proceeding (including any rights of a secured party under the Pennsylvania Uniform Commercial Code) to enforce the payment of the principal, redemption premium, if any, and interest on the Bonds then Outstanding, to realize on or to foreclose any of its interests or liens under the Indenture or under any other of the Bond Documents, to exercise any rights or remedies available to the Trustee, to enforce and compel the performance of the duties and obligations of the Authority as in the Indenture set forth and to enforce or preserve any other

rights or interests of the Trustee under the Indenture with respect to any of the Trust Estate or otherwise existing at law or in equity including, without limitation, rights and remedies under the Commonwealth Lease.

(b) If an Event of Default shall have occurred and be continuing, and if directed in writing so to do by the 2007 Bond Insurer, or the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding with the written consent of the 2007 Bond Insurer and if indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bondowners.

Limitation on Exercise of Remedies by Bondowners. No Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust under the Indenture or for the appointment of a receiver or any other remedy under the Indenture, unless (a) a default has occurred of which the Trustee has been notified as provided in the Indenture or of which the Trustee is deemed to have notice under the Indenture, (b) such default shall have become an Event of Default, (c) the 2007 Bond Insurer or the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding with the written consent of the 2007 Bond Insurer shall have given written direction to the Trustee, shall have offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, and shall have offered to the Trustee indemnity as provided in the Indenture and (d) the Trustee shall thereafter fail or refuse to exercise the powers in the Indenture granted or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy under the Indenture, it being understood and intended that no one or more Owners of the Bonds shall have the right in any manner whatsoever to affect, disturb or prejudice the Indenture by its, his or their action or to enforce any right under the Indenture except in the manner in the Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner in the Indenture provided, and for the equal benefit of the Owners of all Bonds then Outstanding. Nothing in the Indenture contained shall, however, affect or impair the right of any Bondowner to payment of the principal of and interest on any Bond at and after the maturity thereof or the obligation of the Authority to pay the principal of, redemption premium, if any, and interest on each of the Bonds to their respective Owners at the time, place, from the sources and in the manner expressed in the Indenture and in the Bonds.

Right of Bondowners to Direct Proceedings. Except as provided in the Indenture, the 2007 Bond Insurer or, if the 2007 Bond Insurer is in default of its obligations under the Indenture, the Owners of a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver, custodian or any other proceedings under the Indenture, provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture and provided, further, that the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the proceedings so directed would involve it in personal liability for which it has not been indemnified.

Application of Moneys in Event of Default. Any moneys held or received by the Trustee (after the deductions for payment of costs and expenses of proceedings resulting in the collection of such moneys, as provided in the Indenture) together with any other sums then held by the Trustee as part of the Trust Estate (other than the Rebate Fund and the Uninsured Swap Payment Fund), shall be applied in the

following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or premium, if any, or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

- (a) First: To the payment of all amounts due the Trustee under the Indenture;
- (b) Second: To the payment of the whole amount then due and unpaid (i) upon the Outstanding Bonds for principal and premium, if any, and interest, in respect of which or for the benefit of which such money has been collected, with interest (to the extent that such interest has been collected by the Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in the Bonds) on overdue principal and premium, if any, and on overdue installments of interest, (ii) pursuant to the 2007 Interest Rate Swap Agreement (other than Uninsured Swap Payments) and (iii) pursuant to the Liquidity Facility; and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid as described in clauses (i), (ii) and (iii) above, then to the payment of the amounts due and unpaid as described in clauses (i), (ii) and (iii) above, without any preference or priority, ratably according to the aggregate amount so due provided, however, that funds derived from the Arena Lease shall not be applied to the payment of any principal, premium or interest on any Series A Bonds (or any Additional Bonds issued as tax-exempt obligations) unless the Authority and the Trustee shall have received a Favorable Opinion of Bond Counsel;
- (d) Third: To the payment of any unpaid Ongoing Fees and Transaction Expenses;
- (e) Fourth: To the payment of Uninsured Swap Payments to the extent moneys are not available therefor in the Uninsured Swap Payment Fund; and
- (f) Fifth: To the payment of the remainder, if any, to the Authority or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Whenever moneys are to be applied as set forth above, such moneys shall be applied at such times and from time to time as the Trustee shall determine, having due regard to the amount of such moneys available and which may become available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date and shall not be required to make payment to the Owner of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all of payments described in (a) through (e) above have been paid, including attorneys' fees and expenses, and all amounts owing to the United States Government under Section 148 of the Internal Revenue Code have been paid, any balance remaining shall be paid to the Authority.

Remedies Cumulative. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or to the Bondowners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondowners under the Indenture or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right, power or remedy accruing upon any Event of Default shall impair

any such right, power or remedy or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right, power or remedy may be exercised from time to time and as often as may be deemed expedient. In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver, by entry, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every case the Authority, the Trustee and the Bondowners shall be restored to their former positions and all rights under the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Waivers of Events of Default. The Trustee shall waive any Event of Default under the Indenture and its consequences and rescind any declaration of maturity of principal upon the written direction of the 2007 Bond Insurer or, if the 2007 Bond Insurer shall be in default of its obligations under the Indenture, the Owners of at least a majority in aggregate principal amount of all Bonds then Outstanding, provided that there shall not be waived without the written consent of the 2007 Bond Insurer and the Owners of all the Bonds Outstanding (a) an Event of Default in the payment of the principal of any Outstanding Bonds at the date of maturity specified therein, or (b) any default in the payment when due of the interest on any such Bonds unless, prior to such waiver or rescission of the Event of Default referred to in (a) or (b) above, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds on overdue installments of interest in respect to which such default shall have occurred, and all arrears of payments of principal when due, as the case may be, and all expenses of the Trustee in connection with such default shall have been paid or duly provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every case the Authority, the Trustee and the Bondowners shall be restored to their former positions, rights and obligations under the Indenture, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Supplemental Indentures Not Requiring Consent of Bondowners. The Authority and the Trustee may from time to time, without the consent of or notice to any of the Bondowners but with prior written notice to the 2007 Bond Insurer (except as provided in the Indenture), enter into one or more Supplemental Indentures, for any one or more of the following purposes:

- (a) With the prior written consent of the 2007 Bond Insurer, to cure any ambiguity or formal defect or omission in the Indenture or to release property from the Trust Estate which was included by reason of an error or other mistake;
- (b) To grant to or confer upon the Trustee for the benefit of the Bondowners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondowners or the Trustee or either of them;
- (c) To more precisely identify the 2007 Project;
- (d) To subject to the Indenture additional revenues, properties or collateral;
- (e) To modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as then amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;
- (f) To provide for the issuance of Additional Bonds;

- (g) To provide for the refunding or advance refunding of any Bonds;
- (h) To evidence the appointment of a separate trustee or the succession of a new trustee under the Indenture;
- (i) With the prior written consent of the 2007 Bond Insurer, to evidence the appointment of a Liquidity Provider, Remarketing Agent or Tender Agent, and in connection therewith to change any times of day specified in the Indenture by which any action must be taken, or to modify, amend or supplement any Liquidity Facility or any provisions in the Indenture relating thereto which do not adversely affect any then-existing rating on the Bonds;
- (j) With the prior written consent of the 2007 Bond Insurer, to amend the Indenture in accordance with Section 2.03(h)(2) [relating to the modification of the principal payment schedule at the time of conversion to another interest rate period] or 3.02(a)(iii) [relating to the modification of certain redemption provisions at the time of conversion to another interest rate period] upon satisfaction of the conditions set forth therein;
- (k) With the prior written consent of the 2007 Bond Insurer, to alter the manner in which the Remarketing Agent may, in the reasonable exercise of its judgment, act pursuant to the Indenture to increase the likelihood of achieving the lowest net interest cost during the Interest Rate Period for any Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, but only if the Authority provides to the Trustee and the 2007 Bond Insurer a Favorable Opinion of Bond Counsel;
- (l) With the prior written consent of the 2007 Bond Insurer, to alter, prior to the applicable Conversion Date for a conversion to the interest rate for the Bonds to a Fixed Rate or Rates, the manner in which a schedule of principal payments and interest rates may be set pursuant to the Indenture, or the redemption provisions to be applicable to Bonds accruing interest at a Fixed Rate, but only if the Authority provides to the Trustee and the 2007 Bond Insurer a Favorable Opinion of Bond Counsel;
- (m) With the prior written consent of the 2007 Bond Insurer, to amend the ARSs Provisions, but only if (i) unless the Bonds are not then in an ARSs Rate Period, the Trustee has mailed notice of the proposed amendment by first-class mail to each Bondowner and, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed that notice, the Auction Rate determined on that date is the Winning Bid Rate (as those terms are defined in the ARSs Provisions) and (ii) the Authority provides to the Trustee and the 2007 Bond Insurer a Favorable Opinion of Bond Counsel;
- (n) With the prior written consent of the 2007 Bond Insurer, to make any other change which, in the sole judgment of the Trustee, does not materially adversely affect the interests of the Bondowners (in making such determination, the Trustee shall be entitled to rely conclusively upon an Opinion of Counsel);
- (o) With the prior written consent of the 2007 Bond Insurer, to make any other change in connection with a conversion to a different Interest Rate Period; or
- (p) With the prior written consent of the 2007 Bond Insurer, which consent shall not be unreasonably withheld or delayed (other than with respect to any change which would adversely affect the rights of the 2007 Bond Insurer and the 2007 Swap Insurer under this Indenture and the other Bond Documents, which consent shall be in the sole discretion of the

2007 Bond Insurer), to effect changes required to obtain or maintain a rating on any series of Bonds or permitted in connection with obtaining an upgrade of the rating on the Bonds to a higher rating category or subcategory, including, without limitation, the replacement of bond insurance then in place or the provision of additional insurance or other credit enhancement in respect of payment of principal and interest on the Bonds if, at the time of such replacement or provision of such additional insurance or other credit enhancement, any rating on the Bonds is lower than when the Bonds were issued.

Supplemental Indentures Requiring Consent of Bondowners. With the consent of the Owners of not less than a majority in principal amount of the Bonds then Outstanding, and the 2007 Bond Insurer, the Authority and the Trustee may from time to time enter into such other Supplemental Indenture or Supplemental Indentures as shall be deemed necessary or desirable by the Trustee for the purpose of modifying, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided that nothing in the Indenture shall permit or be construed as permitting without the consent of the Owners of all of the Bonds then Outstanding:

- (a) an extension of the maturity of the principal of or the scheduled date of payment of interest on any Bond, or of the Purchase Date, or
- (b) a reduction in the principal amount, redemption premium, Purchase Price, or any interest payable on any Bond, or
- (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or
- (d) a reduction in the aggregate principal amount of Bonds the Owners of which are required for consent to any such Supplemental Indenture; or
- (e) an amendment to the ARSs Provisions other than pursuant as provided in the Indenture.

If at any time the Authority shall request the Trustee to enter into any such Supplemental Indenture for any of the purposes set forth above, the Trustee shall cause notice of the proposed execution of such Supplemental Indenture to be mailed by first-class mail to each Bondowner. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the Designated Office of the Trustee for inspection by all Bondowners. If within 60 days or such longer period as shall be prescribed by the Authority following the mailing of such notice, the 2007 Bond Insurer and the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the execution of any such Supplemental Indenture shall have consented to and approved the execution thereof as in the Indenture provided, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Indenture as permitted and provided, the Indenture shall be and be deemed to be modified and amended in accordance therewith.

Supplemental Lease Agreements Not Requiring Consent of Bondowners. The Authority may and the Trustee shall, without the consent of or notice to the Bondowners but with prior written notice to the 2007 Bond Insurer, consent to the execution of any Supplemental Lease Agreement by the Authority and the Commonwealth as may be required:

- (a) with the prior written consent of the 2007 Bond Insurer, for the purpose of curing any ambiguity or formal defect or omission in the Commonwealth Lease,
- (b) so as to more precisely identify the 2007 Project, or
- (c) with the prior written consent of the 2007 Bond Insurer, in connection with any other change therein which, in an Opinion of Counsel delivered to the Trustee, does not materially adversely affect the interests of the Bondowners.

Supplemental Lease Agreements Requiring Consent of Bondowners. With the prior written consent of the Owners of not less than a majority in principal amount of the Bonds then Outstanding and of the 2007 Bond Insurer, the Authority may and the Trustee may consent to the execution of any Supplemental Lease Agreements by the Authority and the Commonwealth; provided that no such Supplemental Lease Agreement shall be entered into which permits without the prior written consent of the Owners of all of the Bonds then Outstanding:

- (a) an extension of the date of payment of any lease payment under the Commonwealth Lease, or
- (b) a reduction in the amount of any lease payment under the Commonwealth Lease.

If at any time the Authority and the Commonwealth shall request the consent of the Trustee to any such proposed Supplemental Lease Agreement, the Trustee shall cause notice of such proposed Supplemental Lease Agreement to be mailed in the same manner as provided with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed Supplemental Lease Agreement and shall state that copies of the same are on file at the Designated Office of the Trustee for inspection by all Bondowners.

Bonds Deemed To Be Paid. Any Bond or Bonds shall be deemed to be paid and no longer Outstanding under the Indenture and shall cease to be entitled to any lien, benefit or security under the Indenture if the Authority shall pay or provide for the payment of such Bond or Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on such Bond or Bonds, as and when the same become due and payable;
- (b) by delivering and surrendering to the Trustee, for cancellation by it, such Bond or Bonds; or
- (c) by depositing with the Trustee, in trust, (1) cash or Permitted Defeasance Obligations or both in such amounts and with maturities as shall be, together with other moneys deposited therein and together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such Bond or Bonds at or before their respective maturity dates and to pay the interest thereon as it comes due, (2) in the case of Bonds which do not mature or will not be redeemed within 90 days of the deposit referred to in (1) above, a verification report of a nationally recognized independent certified public accounting firm as to the adequacy of the trust funds to fully pay the Bonds deemed to be paid (which shall be acceptable to the Liquidity Provider and the 2007 Bond Insurer), and (3) with respect to Bonds other than ARSs or Fixed Rate Bonds, delivering to the Trustee a letter from each rating service then maintaining a short-term rating for the Bonds to the effect that such deposit will not result in a reduction or

withdrawal of its short-term rating on the Bonds (unless the requirement for such letters is waived by that ratings service). The escrow agreement governing the trust shall be satisfactory in form and substance to the 2007 Bond Insurer. If a forward supply contract is employed in connection with a refunding of Bonds, (i) the verification report described in clause (2) above shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the Indenture, if no separate escrow agreement is executed in connection with such refunding), the terms of the escrow agreement or the Indenture, as applicable, shall be controlling and (iii) the forward supply contract shall be satisfactory in form and substance to the 2007 Bond Insurer.

Notwithstanding the foregoing, in the case of any Bonds which by their terms may be redeemed prior to the stated maturities thereof, no deposit under clause (c) of the immediately preceding paragraph shall be deemed a payment of such Bonds as aforesaid until, as to all such Bonds which are to be redeemed prior to their respective stated maturities, proper notice of such redemption shall have been given in accordance with the Indenture or irrevocable instructions shall have been given to the Trustee to give such notice.

Notwithstanding any provisions of the Indenture which may be contrary to the foregoing, all moneys or United States Government Obligations set aside and held in trust as described above for the payment of Bonds (including redemption premium thereon, if any) shall be held irrevocably in trust for the Owners of such Bonds and applied to and used solely for the payment of the particular Bonds (including redemption premium thereon, if any) with respect to which such moneys and United States Government Obligations have been so set aside in trust.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the 2007 Bond Insurer pursuant to the 2007 Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Authority to the Owners shall continue to exist and shall run to the benefit of the 2007 Bond Insurer, and the 2007 Bond Insurer shall be subrogated to the rights of such Owners.

Immunity of Officers, Employees and Members of Authority. No recourse shall be had for the payment of the principal of or redemption premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained against any past, present or future officer, director, member, employee or agent of the Authority, or of any successor public corporation, as such, either directly or through the Authority or any successor public corporation, under any rule of law or equity, statute or constitution, or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, directors, members, employees or agents as such is expressly waived and released as a condition of and consideration for the execution of the Indenture and the issuance of such Bonds.

Provisions Relating to 2007 Bond Insurer.

(a) In the event that the principal and/or interest due on the 2007 Bonds shall be paid by the 2007 Bond Insurer pursuant to the 2007 Bond Insurance Policy, the 2007 Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the Trust Estate and all covenants,

agreements and other obligations of the Authority to the registered owners shall continue to exist and shall run to the benefit of the 2007 Bond Insurer, and the 2007 Bond Insurer shall be subrogated to the rights of such registered owners.

(b) Any provision of the Indenture expressly recognizing or granting rights in or to the 2007 Bond Insurer may not be amended in any manner which affects the rights of the 2007 Bond Insurer under the Indenture without the prior written consent of the 2007 Bond Insurer. Unless otherwise provided in the Indenture, the 2007 Bond Insurer's consent shall be required for the following purposes: (A) execution and delivery of any Supplemental Indenture or any amendment, supplement or change to or modification of the Indenture or the Commonwealth Lease, except any such amendment or supplement permitted or required under the Indenture to effect a remarketing of the Bonds in accordance with the provisions of the Indenture; (B) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent; and (C) initiation or approval of any action not described in (A) or (B) above which requires Holder consent. Any reorganization or liquidation plan with respect to the Authority must be acceptable to the 2007 Bond Insurer. In the event of any such reorganization or liquidation, the 2007 Bond Insurer shall have the right to vote on behalf of all Holders who hold 2007 Bonds.

(c) Upon the occurrence and continuance of an Event of Default, the 2007 Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of the Holders under the Indenture, including, without limitation: (A) the right to accelerate the principal of the 2007 Bonds as described in the Indenture, and (B) the right to annul any declaration of acceleration, and the 2007 Bond Insurer shall also be entitled to approve all waivers of Events of Default. Upon the occurrence of an Event of Default, the Trustee may, with the consent of the 2007 Bond Insurer, and shall, at the direction of the 2007 Bond Insurer or 51% of the Holders with the consent of the 2007 Bond Insurer, by written notice to the Authority and the 2007 Bond Insurer, declare the principal of the 2007 Bonds to be immediately due and payable, whereupon the principal of the 2007 Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Indenture or in the 2007 Bonds to the contrary notwithstanding. In the event that the maturity of the 2007 Bonds is accelerated, the 2007 Bond Insurer may elect, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the Authority) with respect to the 2007 Bonds, and the Trustee shall accept such amounts. Upon payment of all of such accelerated principal and interest accrued to the acceleration date as provided above, the 2007 Bond Insurer's obligations under the 2007 Bond Insurance Policy shall be fully discharged.

(d) To the extent that the Indenture confers upon or gives or grants to the 2007 Bond Insurer any right, remedy or claim, the 2007 Bond Insurer is explicitly recognized as being a third party beneficiary under the Indenture and may enforce any such right, remedy or claim conferred, given or granted under the Indenture.

Provisions Relating to 2007 Swap Counterparty. For so long as the 2007 Interest Rate Swap Agreement is in effect and the 2007 Swap Counterparty is not in default under the 2007 Interest Rate Swap Agreement, (a) the Authority and the Trustee shall not make or enter into any amendment to the Indenture or the Commonwealth Lease which adversely affects the rights of the 2007 Swap Counterparty without the prior written consent of the 2007 Swap Counterparty and the 2007 Swap Insurer; and (b) to the extent that the Indenture confers upon or gives or grants to the 2007 Swap Counterparty any right, remedy or claim under or by reason of the Indenture, the 2007 Swap Counterparty and the 2007 Swap

Insurer are explicitly recognized as being third-party beneficiaries under the Indenture and may give notice to the Trustee or the Authority or any applicable receiver of the occurrence of an Event of Default under the Indenture, request the Trustee or receiver to intervene in judicial proceedings that affect the 2007 Interest Rate Swap Agreement or the security therefor, or enforce any such right, remedy or claim conferred, given or granted under the Indenture, and the Trustee or receiver shall accept notice of default from the 2007 Swap Counterparty and the 2007 Swap Insurer.

Provisions Relating to Liquidity Provider. For so long as the Liquidity Facility is in effect and the Liquidity Provider is not in default under the Liquidity Facility, (a) the Authority and the Trustee shall not make or enter into any amendment to the Indenture or the Commonwealth Lease which adversely affects the rights of the Liquidity Provider without the prior written consent of the Liquidity Provider and (b) to the extent that the Indenture confers upon or gives or grants to the Liquidity Provider any right, remedy or claim under or by reason of the Indenture, the Liquidity Provider is explicitly recognized as being a third-party beneficiary under the Indenture and may give notice to the Trustee or the Authority or any applicable receiver of the occurrence of an Event of Default under the Indenture, request the Trustee or receiver to intervene in judicial proceedings that affect the Liquidity Facility or the security therefor, or enforce any such right, remedy or claim conferred, given or granted under the Indenture, and the Trustee or receiver shall accept notice of default from the Liquidity Provider.

APPENDIX B
FORM OF THE COMMONWEALTH LEASE

AGREEMENT OF LEASE

by and between

**SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH
AND ALLEGHENY COUNTY
(Allegheny County, Pennsylvania), as Lessor**

and

**COMMONWEALTH OF PENNSYLVANIA,
(through its Department of General Services), as Lessee**

Dated as of September 15, 2007

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AGREEMENT OF LEASE

THIS AGREEMENT OF LEASE dated as of September 15, 2007 (the "Lease") by and between the SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY (the "Authority"), a public instrumentality of the Commonwealth of Pennsylvania, as lessor, and the COMMONWEALTH OF PENNSYLVANIA acting through the DEPARTMENT OF GENERAL SERVICES (the "Commonwealth"), as lessee;

BACKGROUND

A. The Authority was created under the name Public Auditorium Authority of Pittsburgh and Allegheny County pursuant to the Public Auditorium Authorities Law (Act of July 29, 1953, P.L. 1034), as a joint authority organized by the City of Pittsburgh and County of Allegheny. Effective as of November 24, 1999, the name of the Authority was changed to Sports & Exhibition Authority of Pittsburgh and Allegheny County. The Public Auditorium Authority Law was re-codified and continued pursuant to the Sports and Exhibition Authority Act of October 30, 2000, P.L. 616. (such law, as it may be amended from time to time, being hereinafter called the "Act") for the purpose of constructing, improving, maintaining and operating public auditoriums and exhibit halls, including structures for conventions, athletic contests, and exhibitions and all facilities necessary or incident thereto, to borrow money, to issue bonds therefor, and to secure the payment of such bonds, to enter into contracts, leases and licenses with, and to accept grants from, private sources, the federal government, the Commonwealth, its agencies or any political subdivisions thereof, and to collect rentals, admissions and license fees for the use of its projects.

B. The Authority has acquired all right, title and interest in certain real property (the "Conveyed Realty"), including (but not limited to) the property described in Exhibit "A" attached hereto, as the same may be amended from time to time as described herein, such Conveyed Realty being under and subject to certain permitted easements, encumbrances and restrictions.

C. The parties hereto expect that after the date hereof the Authority will acquire title to certain other real property (the "Additional Property"). The Conveyed Realty and the Additional Property (if and when it is acquired by the Authority), all of which are under and subject to certain permitted easements, encumbrances and restrictions as referenced herein above, are hereinafter collectively called the "Site."

D. The Authority intends to finance the acquisition of a portion of the Site and the construction and equipping of a public auditorium (the "New Arena," and together with the Site, the "2007 Project") by the issuance of up to three hundred twenty-five million dollars (\$325,000,000), maximum aggregate principal amount, of its Commonwealth Lease Revenue Bonds, Series of 2007 (the "2007 Bonds"), issued in one or more series, on a tax-exempt and/or taxable basis, and on a fixed and/or variable rate basis, secured by a Trust Indenture from the Authority to The Bank of New York Trust Company, N.A., as trustee (the "Trustee") (such Trust Indenture, as it may be amended and supplemented from time to time pursuant to its terms, being hereinafter called the "Indenture"); and accordingly all covenants and agreements on the part of the Authority and the Commonwealth in this Lease are also for the benefit of the holders of the 2007 Bonds, the Swap Counterparty (as defined herein), the 2007 Bond Insurer and the 2007 Swap Insurer (each as defined herein), and the Liquidity Provider (as defined herein). (All capitalized terms that are used herein but that are not defined herein, and that are defined in the Indenture, shall have the same meaning herein as in the Indenture). In addition, the Authority and PNC Bank, National Association (together with its permitted successors and assigns, the "Swap

Counterparty") propose to enter into one or more floating to fixed rate swap transactions pursuant to the Master Agreement (the "Master Agreement"), to be dated as of such date as set forth in the Indenture, between the Authority and the Swap Counterparty, as supplemented by the Schedule thereto and the Confirmations, each to be dated as of such date as set forth in the Indenture, and any other collateral documents or agreements, if any, securing the parties' obligations hereunder (together with the Master Agreement, as the same may be amended, supplemented or otherwise modified and in effect from time to time, collectively the "Swap Agreement"), each between the Authority and the Swap Counterparty. The term "Swap Agreement" as used in this Lease shall additionally refer to any agreement evidencing a floating to fixed rate swap transaction entered into by the Authority, which may require the prior written consent of the 2007 Bond Insurer, and the term "Swap Counterparty" as used in this Lease shall additionally refer to the counterparty to such Swap Agreement.

E. Among other funds, a Debt Service Reserve Fund will be established with the Trustee under the Indenture. The Debt Service Reserve Fund may be funded by any combination of cash, investment securities or debt service reserve fund credit facilities meeting the requirements of the Indenture. Under such circumstances as described in the Indenture, one or more debt service reserve fund credit facilities (collectively, the "Reserve Fund Surety Bond") may be issued by Financial Security Assurance Inc. (the "Reserve Policy Provider") to fund the Debt Service Reserve Fund upon the conditions set forth in the Indenture. In connection with the Reserve Fund Surety Bond, the Reserve Policy Provider and the Authority propose to enter into a Reserve Policy Reimbursement Agreement (the "Reserve Policy Reimbursement Agreement").

F. The Authority, the Trustee and PNC Bank, National Association (the "Liquidity Provider") will enter into a Standby Bond Purchase Agreement (the "Liquidity Facility"), which will be used to purchase 2007 Bonds of one or more series, bearing interest at such variable rate as described under the Indenture, tendered for purchase under the provisions of the Indenture which cannot be remarketed;

G. Payment of the principal of and interest on the 2007 Bonds when due is being insured by a municipal bond insurance policy (the "2007 Bond Insurance Policy") issued by Financial Security Assurance Inc. (the "2007 Bond Insurer"). The 2007 Bond Insurer, as a swap insurer (the "2007 Swap Insurer") will also issue to the Swap Counterparty an interest rate swap insurance policy (the "2007 Swap Insurance Policy") securing the periodic fixed payment obligations of the Authority under the Swap Agreement.

H. Pursuant to the Act, the Authority is a public body, corporate and politic, exercising public powers of the Commonwealth as an agency thereof and has the power to acquire the Site, construct the 2007 Project, and to enter into leases with the Commonwealth.

I. (1) The Department of General Services (the "Department"), in the name of the Commonwealth, has the power to acquire a leasehold interest in the 2007 Project as described herein; and

(2) The Commonwealth has determined that the leasehold interest created by this Lease is necessary and will be sufficient to protect the Commonwealth's investment and interests in the 2007 Project.

J. Under numerous provisions of law, the Commonwealth is authorized to oversee the general management of real property held by the Commonwealth.

K. The parties have agreed to enter into this interagency agreement in the form of a lease of the 2007 Project.

L. The Authority desires to lease the 2007 Project to the Commonwealth in order to enable the Authority to carry out the purposes for which it was created, and the Commonwealth desires to lease the 2007 Project from the Authority for the purposes described above, all on the terms and subject to the conditions more fully hereinafter provided, and for such rental (and payable at such times) as will be sufficient to pay the Rental Payment Obligations (as hereinafter defined), when due and payable.

M. Immediately after executing this Lease, the Commonwealth will sublease the 2007 Project to the Authority pursuant to a sublease agreement of even date herewith (such sublease, as it may be amended from time to time, being hereinafter called the "Sublease").

NOW, THEREFORE, in consideration of the premises and intending to be legally bound hereby, the Authority hereby leases to the Commonwealth, and the Commonwealth hereby leases from the Authority, the 2007 Project on the terms and subject to the conditions more fully hereinafter set forth;

TO HAVE AND TO HOLD the 2007 Project for the "Term" (as defined in Section 1 hereof) and otherwise on the terms and conditions more fully hereinafter set forth, it being agreed that the foregoing Recitals shall be deemed to be operative provisions of the Lease.

1. **Term.**

The "Term" of this Lease shall commence on the earlier to occur of (i) the effective date of the Swap Agreement, or (ii) the dated date of the 2007 Bonds, and shall end on the last to occur of (x) the close of business on November 2, 2039, or (y) the date after which no Rental Payment Obligations may be due and/or payable; unless sooner terminated pursuant to the express terms of this Lease (including, but not limited to, a termination in accordance with Section 4 hereof because there are no longer any Rental Payment Obligations due and payable); provided, however, that the term of this Lease shall be automatically extended without the necessity for any further act or deed, for such time as may be necessary to accomplish any of the following purposes, plus thirty (30) days:

(a) To enable the Commonwealth to increase or extend the term of the Sublease if it elects to do so upon the written request of the Authority in its capacity as lessee under the Sublease; or

(b) To enable the Authority to comply with any covenant, condition, term or provision of any agreement to which it is a party relating to the 2007 Project, including, without intending to limit the generality of the foregoing, the Sublease; or

(c) To enable the Commonwealth or the Authority to comply with any covenant, condition, term or provision of the Indenture, the Liquidity Facility, the Swap Agreement, the Reserve Policy Reimbursement Agreement, the 2007 Bond Insurance Policy and the 2007 Swap Insurance Policy (including, but not limited to, the obligation to make payments due on the 2007 Bonds or under the Indenture) or any other obligation constituting a Rental Payment Obligation, or any other agreement or contract entered into by such party with the consent of the other party, with respect to the 2007 Project, or with respect to the Sublease.

Either party hereto shall, at the request of the other party hereto (or at the request of the Trustee), enter into such written instrument or instruments as are required in order to memorialize and

carry out the effect and intent of the foregoing subsections (a), (b) and (c), notwithstanding the foregoing provisions are intended to be fully effective without doing so.

2. **Rent.**

(a) The term "Rental Payment Date" means August 1 of each "Commonwealth Fiscal Year," which shall mean the fiscal year of the Commonwealth beginning on a July 1 and ending on the next succeeding June 30. Any Rental Payment Obligations paid by the Commonwealth on a Rental Payment Date shall be made as a payment for amounts due and owing as rent hereunder in the immediately preceding Commonwealth Fiscal Year, as well as for amounts accruing on the Rental Payment Obligations to the Rental Payment Date plus amounts owed from any shortfall or failure to pay any Rental Payment Obligations due, on a cumulative basis, from all preceding Rental Payment Periods. For the particular Commonwealth Fiscal Year during which the Rental Payment Date falls, the term "Rental Payment Period" means the Commonwealth Fiscal Year immediately preceding the applicable Rental Payment Date.

(b) In order to enable the General Assembly of the Commonwealth to appropriate sufficient funds to enable the Commonwealth to make the payment of the Rental Payment Obligations for each Rental Payment Period, the Authority agrees that it shall notify, or cause the Trustee to notify, the Commonwealth, in writing, no later than October 10 of each Rental Payment Period during the term of this Lease (commencing with the Commonwealth Fiscal Year beginning July 1, 2008) of the estimated total amount of rent due for such Rental Payment Period and to be appropriated and paid by the Commonwealth during the next immediately succeeding Commonwealth Fiscal Year on the Rental Payment Date. The estimate of Rental Payment Obligations hereunder required to be paid by the Commonwealth as described in the immediately preceding sentence is hereinafter called the "Annual Rent Estimate." The Commonwealth agrees that the Authority may revise the Annual Rent Estimate by delivering such revised Annual Rent Estimate to the Commonwealth not later than January 1 of each such Rental Payment Period.

(c) Pursuant to the Indenture, the Authority also agrees to notify the Commonwealth, or cause the Trustee to notify the Commonwealth, in writing, no later than July 15 of each Commonwealth Fiscal Year during which the Commonwealth has made an appropriation to pay the Annual Rent Estimate in its budget as to the exact amount of the Rental Payment Obligations due on August 1 of such Commonwealth Fiscal Year as rent for the related Rental Payment Period; provided, however, that if the Authority shall fail to deliver such notice to the Commonwealth on or prior to the last date specified above for such delivery, then it shall be conclusively assumed that the Rental Payment Obligations required from the Commonwealth at that time is the same as the estimate thereof in the relevant Annual Rent Estimate.

(d) In the event that, after the Trustee receives the payment of the Rental Payment Obligations due on August 1, the Trustee then receives any payments of the Special Revenues that would have reduced the amount payable by the Commonwealth on such August 1, if the Commonwealth is not in default under the Lease, the Trustee shall notify the Commonwealth and the Authority of such event and, if directed in writing by the Commonwealth, return to the Commonwealth an amount equal to the amount of such Special Revenues received by the Trustee to the Commonwealth in such manner as the Commonwealth shall direct, up to the cumulative amount of Rental Payment Obligations previously paid by the Commonwealth and not previously reimbursed.

(e) On each Rental Payment Date, the Commonwealth shall pay to the Authority or to the Authority's assigns, as rent hereunder, subject to the annual appropriation by the General Assembly of the

Commonwealth sufficient funds to pay such rent, an aggregate amount equal to the sum of the following (collectively herein defined as the "Rental Payment Obligations"):

- (i) all amounts required to be paid by the Authority to the Swap Counterparty under the Swap Agreement during the related Rental Payment Period, including without limitation any scheduled periodic payments, plus any interest accrued thereon, and any aggregate unpaid amount accrued or estimated to accrue under the Swap Agreement during the related Rental Payment Period; plus
- (ii) all amounts necessary to enable the Trustee to pay all interest on the 2007 Bonds coming due on each and every interest payment date therefor occurring during the related Rental Payment Period, after taking into account any payments actually received from the Swap Counterparty under the Swap Agreement during such period and deposited with the Trustee; plus
- (iii) all amounts necessary to enable the Trustee to make each and every principal payment or mandatory redemption payment on the 2007 Bonds scheduled to be made during the related Rental Payment Period, including without limitation, redemption of Liquidity Provider Bonds as provided in the Liquidity Facility; plus
- (iv) all amounts drawn from the Debt Service Reserve Fund or any other reserve fund (including without limitation the Supplemental Reserve Fund and any other special reserve fund established under the Indenture on account of or in relation to the Swap Agreement) and necessary to restore the same to their respective required levels in accordance with the terms of the Indenture, or the Reserve Policy Reimbursement Agreement; plus
- (v) all amounts necessary to reimburse the Reserve Policy Provider for any draws on the Reserve Fund Surety Bond in accordance with the terms of the Reserve Policy Reimbursement Agreement, together with all other amounts required to be paid by the Authority to the Reserve Policy Provider under any such Reserve Policy Reimbursement Agreement; plus
- (vi) all amounts necessary to reinstate the Liquidity Facility with respect to drawings with which Bank Bonds are delivered, at a price and in accordance with the terms of the Indenture and the Liquidity Facility, including, without limitation, interest at the rate for which provision is made in the Liquidity Facility; plus
- (vii) all amounts necessary to pay the fees and expenses of any Remarketing Agent, any Auction Agent, any Broker-Dealer, any Tender Agent, the Trustee, any Rating Agency, the Swap Counterparty, the 2007 Bond Insurer, the 2007 Swap Insurer, any letter of credit provider, any rebate consultant as may be required under the Indenture and any Liquidity Provider that the Authority has agreed to pay during the related Rental Payment Period; plus
- (viii) all amounts necessary to be provided by the Authority in order to enable the Trustee to pay the full amount of any redemption price of the 2007 Bonds (including any applicable redemption premium) expected to occur during the related Rental Payment Period, which redemption is being funded pursuant to the terms of the Indenture in whole or in part from moneys that the Indenture requires be provided by the Authority other than out of funds then held by the Trustee under the Indenture (whether by reason of a redemption to which the Commonwealth has consented or a redemption as to which no consent by the Commonwealth is required); plus

(ix) any moneys required to be deposited into the Rebate Fund under the Indenture during the related Rental Payment Period that are not available from other sources under the Indenture; plus

(x) all amounts required to be paid by the Authority to the 2007 Bond Insurer and the 2007 Swap Insurer under the Indenture or otherwise in respect of the 2007 Swap Insurance Policy, the 2007 Bond Insurance Policy during the related Rental Payment Period; plus

(xi) that portion, if any, of the above amounts payable in respect of any cumulative prior Rental Payment Periods that, for any reason, have not been paid in full as of such Rental Payment Date, plus any costs and expenses that will have accrued on such previously unpaid amounts until the Rental Payment Date on which all obligations are paid in full; plus

(xii) all amounts required to be paid by the Authority to the Swap Counterparty under the Swap Agreement during the Rental Payment Period, including without limitation any termination payments thereunder plus any interest accrued thereon, and any other required payments other than the scheduled periodic payments discussed in subparagraph (e)(i) of this Section 2.

(f) Notwithstanding any contrary provisions of any of Section 2, in no event shall the aggregate amount of the Commonwealth's rental obligations under this Section 2 during the Term of this Lease exceed the aggregate amount of the payments required to be made by the Authority in respect of the Rental Payment Obligations.

(g) The Commonwealth's obligation to pay rent hereunder shall survive the termination of this Lease and shall otherwise continue in full force and effect until all of the 2007 Bonds have been paid or deemed paid and are no longer Outstanding under the Indenture and all Rental Payment Obligations have been paid in full. Subject only to the appropriation of funds for rental payments hereunder by the General Assembly as set forth in Section 2(e) hereof, the obligation of the Commonwealth to pay rent shall be absolute and unconditional, and rent shall be paid without notice or demand (unless notice or demand is expressly provided for in this Lease), counterclaim, set-off, defense, abatement, suspension or deferment, and without deduction, diminution or reduction of any kind or amount or for any reason. Without in any way limiting the foregoing, the obligations and liabilities of the Commonwealth hereunder shall in no way be released, reduced, discharged or otherwise affected by reason of:

(i) any payment made on behalf of the Commonwealth by reason of the Commonwealth's failure to meet one or more of its obligations hereunder, including (but not limited to) any payment by the Trustee from the Debt Service Reserve Fund or any other reserve fund because the Commonwealth has not made one or more payments of rent hereunder when due;

(ii) any damage to or destruction of the 2007 Project or any part hereof;

(iii) all or any portion of the 2007 Project ceasing to be subject to this Lease, whether by reason of a partial, complete or temporary taking by eminent domain or for any other reason;

(iv) any restriction of, prevention of or interference with any use of the 2007 Project or any part thereof, regardless of any contingency, Act of God, or other event or cause whatsoever whenever occurring;

(v) any title defect or encumbrance or any eviction (or act or circumstance constituting a constructive eviction) from the 2007 Project or any part thereof by title paramount or otherwise;

(vi) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to the Authority, or any action taken with respect to this Lease by any trustee or receiver of the Authority, or by any court, in any such proceeding;

(vii) any claim (whether by way of set-off, recoupment, counterclaim or otherwise) which the Commonwealth or anyone else has or might have against the Authority under this Lease, the Sublease, the Indenture, the Swap Agreement, the Liquidity Facility, the Reserve Policy Reimbursement Agreement or otherwise;

(viii) any failure on the part of the Authority to perform or comply with any of the terms of this Lease, the Sublease or any other agreement with the Commonwealth, or of the Indenture, the Swap Agreement, the Liquidity Facility, the Reserve Policy Reimbursement Agreement or any other agreement to which the Authority is a party;

(ix) any failure of the Authority or the Trustee to perform or observe any agreement or covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Lease, the Sublease, the Indenture, the Liquidity Facility, the 2007 Bonds, the Reserve Policy Reimbursement Agreement or the Swap Agreement, including the Authority's obligation to complete the 2007 Project;

(x) any failure of any third party to perform or comply with any terms of any agreement to which the Commonwealth or the Authority is a party, including but not limited to the Sublease Agreement by and between the Authority and Lemieux Group, L.P., or an affiliate, successor or assign thereof, and any Casino Operator Agreement;

(xi) any failure of consideration, failure of title or frustration of purpose;

(xii) any change in the tax or other laws of the United States of America or of any state or other governmental authority (including, without limitation, abolition, modification or reduction of governmental services provided to the 2007 Project or imposition of or increases in charges imposed therefor);

(xiii) any determination that interest on any 2007 Bonds is includable in the gross income of the holder of such 2007 Bonds for purposes of federal income taxation; and

(xiv) any other occurrence whatsoever, whether similar or dissimilar to the foregoing and whether or not either or both of the Commonwealth and the Authority shall have notice or knowledge of any of the foregoing.

The Commonwealth shall not limit or alter the rights vested by the Act in the Authority (if such limitation or alteration would adversely affect the rights of the Trustee, the Swap Counterparty, the Liquidity Provider, the 2007 Bond Insurer, the 2007 Swap Insurer, the Reserve Policy Provider or the Bondholders) until all Rental Payment Obligations are fully paid and discharged. The Commonwealth expressly waives all rights now or hereafter conferred by statute or otherwise if and to the extent that such rights allow the Commonwealth to quit, terminate or surrender this Lease or the 2007 Project or any part

thereof, or entitle the Commonwealth to any abatement, suspension, deferment, diminution or reduction of the rent payable by the Commonwealth hereunder.

(h) Time shall be of the essence of this Lease with respect to the Commonwealth's obligations under this Section 2 and with respect to Section 16 hereof.

(i) In calculating the Annual Rent Estimate pursuant to Section 2(b) above, the Authority may use good faith estimates of any component of rent that is variable and not a fixed sum.

3. **Assignment of Rents to Trustee.**

The Commonwealth acknowledges that under the Indenture the Authority is selling, assigning, transferring, setting over and pledging unto the Trustee all of the Authority's right, title and interest in and to the rents payable to the Authority hereunder in order to secure the payment of the 2007 Bonds, the payment of all amounts owing by the Authority under the Swap Agreement, the Liquidity Facility and the Reserve Policy Reimbursement Agreement (in such order of priority as the Indenture may provide), and all Rental Payment Obligations, and the Trustee, the holders of the 2007 Bonds, the Swap Counterparty, the Liquidity Provider and the 2007 Bond Insurer and the Reserve Policy Provider shall be third party beneficiaries of this Lease. The Commonwealth hereby consents to the provisions of the immediately preceding sentence, including the assignment of the rents payable by it hereunder to the Trustee, and agrees to make all payments of rent hereunder directly to the Trustee (on behalf of the Authority) unless and until the Commonwealth receives written notification that such assignment has been terminated. Such rent payments shall be made to such office or address of the Trustee as the Trustee may designate from time to time by written notice to the Commonwealth. The Authority, for itself, and its successors and assigns, agrees for the benefit of the Commonwealth (and the Indenture shall so require) that the Trustee will deposit rent and other monies (if any) received by it from the Commonwealth hereunder initially in the Commonwealth Lease Payment Account to be used in the manner specified in the Indenture.

4. **Termination of Obligation to Pay Rent.**

If and when there are sufficient funds available to the Trustee, within the funds held by the Trustee for such purposes, to make full payment of all Rental Payment Obligations required to be paid by the Authority, and when no Rental Payment Obligations, remain outstanding or may be due and/or payable, and the Swap Agreement, the Liquidity Facility and Reserve Policy Reimbursement Agreement have been terminated and no amounts are owed thereunder or in respect of the 2007 Bonds or under the Indenture, the Commonwealth shall be relieved of making any further payments of rent hereunder, and from and after such time, the Authority may elect, on not less than ten (10) days prior written notice to the Commonwealth, the Trustee and the 2007 Bond Insurer, to terminate this Lease and Sublease immediately.

5. **The Commonwealth to Provide for Payment of Rent from its Annual Budget.**

The Commonwealth agrees that, until the Commonwealth is no longer obligated to pay rent under this Lease there shall be included in the annual budget request submitted by the Governor of the Commonwealth to the General Assembly of the Commonwealth an amount for payment of the Rental Payment Obligations when due pursuant to Section 2(e) hereof, equal to the aggregate amount specified in the Annual Rent Estimate for the Commonwealth Fiscal Year covered by such budget request.

The Commonwealth acknowledges that its covenant herein is a material term of this Lease the breach of which constitutes a default entitling the Authority to obtain damages in an amount equal to the amount of rent payable in accordance with the applicable Annual Rent Estimate together with interest thereon at the

rate of interest payable on the 2007 Bonds (or such other rate as may be applicable to any other Rental Payment Obligation) between the date on which such rental payment is due and the date on which such payment of rent and the interest thereon is actually made by the Commonwealth, plus any amounts owed under a Swap Agreement as a result of such breach.

6. **Issuance of Additional Bonds.**

Additional Bonds may be issued pursuant to the Indenture if and when (i) the Governor of the Commonwealth of Pennsylvania shall have approved the issuance of such Additional Bonds as required pursuant to the terms and conditions of the Indenture, and (ii) the Commonwealth has agreed to incorporate the Rental Payment Obligations due as a result of the issuance of Additional Bonds in an amendment or supplement to this Lease.

7. **Sublease.**

It is specifically agreed by the Authority and the Commonwealth that:

(a) the leasehold interest herein granted to the Commonwealth by the Authority shall be independent of the leasehold interest granted in the Sublease;

(b) the Sublease shall not constitute an assignment or surrender of the leasehold interest herein granted to the Commonwealth;

(c) the Sublease shall not operate as a merger or extinguishment of the leasehold interest herein granted to the Commonwealth;

(d) this Lease and the Sublease shall not constitute so-called "washout" or "mutual" leases;

(e) the Sublease may be amended at any time and from time to time in accordance with the provisions as set forth in the same; and

(f) should the Sublease be terminated for any reason whatsoever (whether by expiration of its term, by breach of the Sublease or otherwise), this Lease and the interest herein granted by the Authority to the Commonwealth shall remain in full force and effect unless and until terminated by the express terms of the Indenture or this Lease.

8. **Federal Tax Covenants.**

(a) Interest on the portion of 2007 Bonds being issued contemporaneously with the execution hereof on a tax-exempt basis is intended to be excludable from the gross income of the holders of the 2007 Bonds for federal income tax purposes. The Authority and the Commonwealth hereby covenant, for the benefit of the holders from time to time of the 2007 Bonds which are intended to have interest excluded from gross income for purposes of federal income taxation (such intent to be indicated in the document offering the 2007 Bonds at the time of issuance), that the Authority and the Commonwealth shall at all times do and perform all acts and things necessary and desirable in order to assure that interest paid on such 2007 Bonds shall, for purposes of federal income taxation, be and remain excludable from the gross income of the recipients thereof and that they will refrain from doing or performing any act or thing that will cause such interest not to be so excludable.

(b) The Authority and the Commonwealth hereby covenant, for the benefit of the holders from time to time of the 2007 Bonds which are intended to have interest excluded from gross income for purposes of federal income taxation (such intent to be indicated in the document offering the 2007 Bonds at the time of issuance), that the Authority and the Commonwealth will not make any investment or other use of the "proceeds" (as that term is defined in Section 148 of the Code) of such 2007 Bonds which would cause the 2007 Bonds to be "arbitrage bonds" (as that term is defined in Section 148 of the Code), and that they will comply with the requirements of such Code Section and regulations throughout the term of such 2007 Bonds.

(c) The Authority and the Commonwealth hereby covenant, for the benefit of the holders from time to time of the 2007 Bonds which are intended to have interest excluded from gross income for purposes of federal income taxation (such intent to be indicated in the document offering the 2007 Bonds at the time of issuance), that the Authority and the Commonwealth will comply with the requirement for rebate to the United States as described (along with other requirements) in the Tax Compliance Agreement.

(d) The Authority will otherwise comply with the provisions of Section 6.08 of the Indenture.

(e) The provisions of this Section 8 shall survive the termination of this Lease.

9. **Covenants of the Commonwealth.**

(a) The Commonwealth hereby covenants for the benefit of the holders from time to time of the 2007 Bonds to execute and to deliver a Continuing Disclosure Agreement requiring the Commonwealth to, among other things, produce such information as required thereunder to each then-existing, nationally recognized municipal securities information repository, as recognized from time to time by the Securities and Exchange Commission; any then-existing state information depository, if any; and to the Authority, in each case within five Business Days after receipt by the Trustee, relative to a delay in or failure by the Commonwealth to appropriate the Rental Payment Obligations as required hereunder, including its delay in or failure to provide the Annual Rent Estimate within the prescribed time periods, or to fail to satisfy such Rental Payment Obligations on the Rental Payment Date.

(b) The Commonwealth hereby covenants and agrees to execute and deliver such certificates or other documents as may be required by the Indenture to effectuate the Reserve Fund Surety Bond.

10. **Representations of the Authority.**

(a) The Authority represents, covenants and agrees that, as of the date of this Lease: it has full right, power and authority to execute this Lease for the Term and on the conditions herein contained;

(b) it has full right, power and authority to perform all of its obligations and duties hereunder; and

(c) the Commonwealth, upon performing all of its obligations hereunder, shall peacefully and quietly hold and enjoy the 2007 Project for the Term hereof subject to all covenants, terms and conditions herein contained.

11. **Representations of the Commonwealth.**

The Commonwealth represents, covenants and agrees that, as of the date of this Lease:

(a) it has full right, power and authority to execute this Lease and to perform its obligations and duties hereunder; and

(b) the Commonwealth's execution and delivery hereof and performance of its obligations hereunder have been duly authorized, are the legal, valid and binding obligations of the Commonwealth (enforceable in accordance with their terms) and do not conflict with or constitute a breach under any law, regulation, ruling, order or instrument by which the Commonwealth is bound or to which the Commonwealth or its properties are subject.

12. **Additional Property; Condition of Title to the 2007 Project; Existing Physical Condition; and Existing Agreements.**

(a) The Commonwealth acknowledges that as and when the Authority acquires Additional Property, the Authority shall provide to the Commonwealth a revised Exhibit A, and upon delivery of such revised Exhibit A to the Commonwealth it shall thereafter be deemed to be the operative Exhibit A in lieu of the prior Exhibit A and Exhibit A will be deemed to be automatically amended thereby without the necessity for any further act or deed.

(b) Except as may be expressly provided elsewhere in this Lease, the Commonwealth acknowledges that it is leasing the 2007 Project "as is" and "where is," without any representation or warranty (express or implied) of any kind from the Authority, and after having conducted all inquiries and investigations that the Commonwealth has determined (in its sole judgment) were necessary or desirable.

(c) The Commonwealth represents that the title to the 2007 Project and the Site (including all exceptions to title encumbering any of them), the zoning and access ways adjoining them, and any surface and subsurface conditions thereof, have been examined by the Commonwealth to the extent that the Commonwealth has determined that such examination is necessary, and the Commonwealth accepts them in the condition or state in which they now are, or any of them now is, without representation, covenant or warranty, express or implied, in fact or in law, by the Authority and without recourse to the Authority, as to the title thereto, encumbrances thereon, appurtenances, the nature, condition or usability thereof or the use or uses to which the 2007 Project or any part thereof may be put.

13. **Surrender.**

The Commonwealth agrees that upon the termination of the Term hereof: (a) it will promptly yield up to the Authority the 2007 Project and all improvements, alterations and additions thereto; and (b) all right, title and interest (if any) of the Commonwealth as lessor, lessee, grantee, licensee or otherwise, acquired by it pursuant to this Lease in and to all leases, contracts, licenses, agreements and grants as well as any other intangible rights or property interests relating to or affecting the 2007 Project, or any personal property used in connection with the operation of the 2007 Project will automatically revert to the Authority without the necessity for any further act or deed, although the Commonwealth will execute such documents as are required in order to document such action.

14. **Disposition.**

(a) The Commonwealth shall not sell, lease (except for the Sublease), mortgage, encumber or otherwise convey or dispose of or grant any liens on all or any portion of its interest in this Lease or the 2007 Project, except to the extent requested by the Authority as hereinafter provided. Notwithstanding the foregoing, the parties hereto agree that the Commonwealth shall release from the terms and conditions of this Lease (without the necessity for any approval thereof by the Trustee) any portion or portions of the 2007 Project that are required to be conveyed by the Authority to others pursuant to the provisions of any of the documents included in any permitted easements, encumbrances and restrictions, and each such Transfer shall be deemed to be a Permitted Transfer (as defined below) for the purpose of this Section 14.

(b) If the Authority proposes to sell, assign, lease, sublease, release from the Commonwealth's leasehold estate hereunder, grant, convey, quit-claim, mortgage, encumber, pledge, hypothecate, create a lien upon or otherwise convey or dispose of all or any portion of the 2007 Project or any interest therein, including (but not limited to) the creation of any easement, servitude or license (all of the foregoing being hereinafter called collectively, the "Transfers"), it shall be permitted to do so if such Transfer is in compliance with the Indenture and the Act. Each such Transfer in compliance with the Indenture and the Act is hereinafter called a "Permitted Transfer."

(c) In connection with any Permitted Transfer, the Commonwealth shall cooperate with the Authority therein, including, but not limited to, execution and delivery of such consents, releases or subordinations as may be necessary or appropriate in order to effectuate the transaction, after having received an opinion of counsel that the Commonwealth's execution and delivery of such instruments are permitted by the terms of this Lease and that all conditions precedent to consummating the transaction described in Section 14(b) hereof have been satisfied.

15. **The Commonwealth's Certificate.**

The Commonwealth agrees that, at any time and from time to time, within thirty (30) days after written request from the Authority or the Trustee to do so, the Commonwealth will execute, acknowledge and deliver to the entity making such request a written instrument in recordable form certifying that this Lease and the Sublease are unmodified and in full force and effect (or if there have been modifications, that they are in full force and effect as modified and stating the modifications), and the dates to which rents and other charges have been paid in advance, if any, and stating whether or not to the best knowledge of the signer of such certificate the Commonwealth and/or the Authority is in default in the performance of any covenant, agreement or condition contained in this Lease or the Sublease and, if so, specifying each such default of which the signer may have knowledge, it being intended that any such statement delivered pursuant to this Section 15 may be relied upon by any prospective transferee of the fee or any mortgagee thereof or any assignee of the Authority's interest in this Lease or of any mortgage upon the fee of the 2007 Project, or any part thereof. Nothing in this Section 15 shall be deemed to permit any transfer, mortgage or assignment not otherwise permitted elsewhere in this Lease or in the Indenture.

16. **Defaults and Remedies.**

(a) Except as is otherwise provided in Section 16(d) hereof, (i) if the Commonwealth fails to pay the full amount of the Rental Payment Obligations when due hereunder; or (ii) if the Commonwealth fails to comply with its obligations set forth in the first sentence of Section 5 hereof (including clauses (a) and (b)); or (iii) if the Commonwealth fails to perform any other

covenant, condition or agreement hereunder within thirty (30) days after the Authority or the Trustee has given the Commonwealth written notice requiring the same to be performed; or (iv) if the Commonwealth shall be adjudicated a bankrupt, or shall make an assignment for the benefit of creditors or shall file a bill in equity or otherwise initiate proceedings for the appointment of a receiver of the Commonwealth's assets, or shall file any proceeding in bankruptcy or for reorganization or an arrangement under any federal or state law; or (v) if any proceeding in bankruptcy or for the appointment of a receiver shall be instituted by any creditor of the Commonwealth under any state or federal law, and such proceeding has not been terminated within sixty (60) days after its institution (the occurrence of any such event constituting an event of default and a breach under this Lease), then and in addition to any other rights or remedies the Authority may have under this Lease and at law and in equity, the Authority shall have the right to recover from the Commonwealth all monies that are not paid when due, including any Rental Payment Obligations, together with interest on the unpaid balance, at the rate of interest payable on the 2007 Bonds (or such other rate as may be applicable to any other Rental Payment Obligation), between the date when each such sum is due and the date on which the Commonwealth actually pays such sum and interest thereon, plus any costs and expenses that will have accrued on such previously unpaid amounts until the Rental Payment Date on which all obligations are paid in full.

(b) No right or remedy herein conferred upon or reserved to the Authority is intended to be exclusive of any other right or remedy herein or by law or in equity provided, but each shall be cumulative and in addition to every other right or remedy given herein or now or hereafter existing at law, in equity or by statute. The Authority agrees that it shall not exercise any of its rights or remedies under Section 16(a) hereof prior to obtaining the 2007 Bond Insurer's consent and 2007 Swap Insurer's consent thereto, and the parties hereto acknowledge that the 2007 Bond Insurer shall have the right to exercise all of the Authority's rights and remedies under Section 16(a) hereof (on the Authority's behalf) if and to the extent that the Indenture so provides; provided, however, that such consent by the 2007 Bond Insurer shall not be required during the pendency of any default by the 2007 Bond Insurer with respect to its obligations or duties under its municipal bond insurance policy covering the 2007 Bonds.

(c) No waiver by the Authority of any breach by the Commonwealth of any of the Commonwealth's obligations, agreements or covenants herein shall be a waiver of any subsequent breach or of any obligation, agreement or covenant, nor shall any forbearance by the Authority to seek a remedy for any breach by the Commonwealth be a waiver by the Authority of any rights and remedies with respect to such or any subsequent breach.

(d) Notwithstanding any provision of Section 16(a) hereof to the contrary, it shall be a defense to the failure of the Commonwealth to pay the Rental Payment Obligations when due hereunder if and to the extent that such failure occurs because the General Assembly of the Commonwealth has not appropriated sufficient money in the general fund of the Commonwealth for this purpose to enable the Commonwealth to pay such rental, even though the annual budget of the Commonwealth submitted to the General Assembly for this purpose did include sufficient funds to make such rental payments in full.

(e) Notwithstanding the references to the "Authority" contained in this Section 16, the parties hereto agree that the rights of the Authority hereunder have been assigned to the Trustee, and the Trustee may exercise all rights of the Authority for which provision is made herein as provided in the Indenture.

17. **Remedies of the Commonwealth.**

In the event of a breach of any express or implied representation, warranty, covenant, agreement or other provision of this Lease by the Authority, subject to the provisions of Section 2(g) of this Lease, the Commonwealth shall have all remedies available under law and in equity; provided, that the exercise of such remedies shall not adversely affect the holders of the 2007 Bonds issued under the Indenture or the 2007 Bond Insurer, the Swap Counterparty, the 2007 Swap Insurer, the Liquidity Provider and any Reserve Fund Surety Provider.

18. **Insurance; Restoration of Damage to the 2007 Project.**

The provisions of the Sublease shall govern all obligations to carry insurance on and with respect to the 2007 Project and all obligations to effect the repair or restoration of any damage to or destruction of all or any portion of the 2007 Project from whatever cause, including (but not limited to) a taking by eminent domain. The use of proceeds of insurance policies and condemnation awards shall also be governed by the provisions of the Sublease. All such provisions shall be deemed to be incorporated in this Lease as if fully set forth herein so that if the Sublease shall terminate prior to the termination of this Lease, such provisions shall nevertheless survive the termination of the Sublease.

19. **Improvements, Replacements, Etc. to be a Part of 2007 Project.**

The Commonwealth and the Authority agree that all repairs, renewals and improvements to all real property, and all repairs, renewals and replacements to all tangible personal property, included in the 2007 Project and used or useful in the operation of the 2007 Project, and all additions and extensions to the 2007 Project that are intended to be integral components of the Conveyed Property, which shall be made or acquired by the Commonwealth or the Authority during the Term hereof shall, upon their completion or acquisition (as the case may be), forthwith constitute a part of the 2007 Project and a part of the leasehold estate of the Commonwealth hereunder in the 2007 Project without the necessity of any act or deed; and the parties agree to execute such instruments as are required in order to memorialize and carry out the effect and intent of this Section 19(a), notwithstanding that the foregoing provisions are intended to be fully effective without doing so.

20. **Recordation.**

At the election of the Authority, either a copy of this Lease or a memorandum hereof (in a form acceptable to the Commonwealth) shall be recorded.

21. **Choice of Law.**

This Lease shall be construed according to and governed by the laws of the Commonwealth.

22. **Notices.**

All notices required or authorized to be given by the Authority or the Commonwealth pursuant to this Lease shall be in writing and shall be sent by registered or certified mail, postage prepaid, or by a nationally recognized commercial overnight delivery service guaranteeing next-day delivery, to the following addresses:

- (a) To the Authority, to:
- Sports & Exhibition Authority of Pittsburgh and Allegheny County
425 Sixth Avenue - Suite 2700
Pittsburgh, PA 15219
Attention: Executive Director
- (b) To the Commonwealth, to:
- Department of General Services
515 North Office Building
Harrisburg, PA 17125
Attention: Secretary of the Department of General Services
- With a copy to its Chief Counsel at:
- Department of General Services
603 North Office Building
Harrisburg, PA 17125
Attention: Chief Counsel
- (c) To the 2007 Bond Insurer, 2007 Swap Insurer,
and Reserve Fund Insurer, to:
- Financial Security Assurance Inc.
31 West 52nd Street
New York, NY 10019
Attention: Municipal Oversight
- (d) To the Liquidity Provider, to:
- PNC Bank, National Association
249 Fifth Avenue, 25th Floor
Pittsburgh, PA 15222-2707
Attention: Public Finance
- (e) To the Swap Counterparty, to:
- PNC Bank, National Association
One PNC Plaza, 9th Floor
249 Fifth Avenue
Pittsburgh, PA 15222-2707
Attention: Swap Operations

or to such other addresses as may, from time to time, be furnished to the parties, effective upon the receipt of notice thereof given as set forth above. A courtesy copy of each notice given pursuant to this Lease shall be sent to the 2007 Bond Insurer pursuant to the foregoing provisions at the same time such notice is given by one of the parties hereto to the other.

23. **Cooperation in Filing Reports.**

The Commonwealth agrees that it will cooperate with the Authority in the preparation and filing of any information, report or other document with respect to the 2007 Bonds or any series of

2007 Bonds which may at any time be required, in the judgment of the Authority or the Trustee to be filed with the Internal Revenue Service pursuant to Federal tax laws.

24. **Amendments and Supplements.**

This Lease may be amended or supplemented only under the circumstances as described in the Indenture and, except as is otherwise provided in Article X of the Indenture and Section 12(a) of the Lease, by an instrument in writing signed by both of the parties hereto and, if so required by the Indenture, approved or consented to by any or all of the Trustee, the Bondholders, the Liquidity Provider, the Swap Counterparty and the 2007 Bond Insurer, the 2007 Swap Insurer and Reserve Fund Surety Bond Provider.

25. **Provisions Separate.**

In the event that any provisions hereof (other than Sections 2 and 16 hereof) shall be held to be invalid, such invalidity shall not affect any other provision hereof, and the remaining provisions hereof shall be construed and enforced as if such invalid provision had not been contained herein.

26. **Execution in Counterparts.**

This Lease may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Lease shall be come binding when any one or more counterparts hereof individually or taken together, shall bear the signature of the Authority and the Commonwealth.

27. **Exhibits.**

All Exhibits to this Lease are incorporated within this Lease and constitute a part hereof.

28. **Descriptive Headings.**

Descriptive headings of the several Sections of this Lease and any Table of Contents are intended for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

29. **Binding Effect, Permitted Assigns.**

This Lease shall be binding upon and shall inure to the sole benefit of the parties hereto, their respective successors and permitted assigns, and the Trustee (for the benefit of the holders of the 2007 Bonds). No party may assign any of its rights or delegate any of its obligations hereunder if such action would be in violation of the Indenture, without the consent of the other party and the Trustee, and any such purported assignment or delegation shall be void.

30. **Miscellaneous.**

Each and every covenant and agreement contained herein is, and shall be construed to be, a separate and independent covenant and agreement. All rights and remedies given or granted to either party in this Lease are cumulative, nonexclusive and in addition to any and all rights and remedies that such party may have or be given at law, in equity or otherwise. No failure by either party to insist upon strict performance of this Lease or to exercise any remedy upon the occurrence of an event of default shall constitute a waiver of such default, or a waiver or modification of any provision of this Lease, and,

likewise, no prior course of dealing between the parties hereto shall constitute a waiver of such default or waiver or modification of any provision of this Lease. Upon the occurrence of a default, the Authority or the Commonwealth, as the case may be, may exercise any one or more of the remedies available to it separately or concurrently and as often as required to enforce the other party's obligations. In addition to the other remedies provided in this Lease, the Authority and the Commonwealth shall each be entitled to the restraint, by injunction, of the violation (or the attempted or threatened violation) by the other party of any of the covenants, conditions or provisions of this Lease, and to a decree compelling specific performance of any such covenants, conditions or provisions. This Lease constitutes the entire agreement of the parties with respect to the leasing by the Commonwealth from the Authority of the 2007 Project, and may not be charged, modified or terminated except in accordance herewith.

IN WITNESS WHEREOF, the parties have caused this Lease to be executed by their duly authorized officers and their corporate seals to be hereunto affixed and duly attested, on _____, 2007, as of the day and year first above written.

ATTEST:

**SPORTS & EXHIBITION AUTHORITY OF
PITTSBURGH AND ALLEGHENY COUNTY**

By: _____

ATTEST:

**COMMONWEALTH OF PENNSYLVANIA,
acting through the DEPARTMENT OF
GENERAL SERVICES**

By: _____

Approved as to form and legality:

Chief Counsel, Department of General Services

Office of General Counsel

Office of Attorney General

EXHIBIT "A" OF COMMONWEALTH LEASE
THE CONVEYED PROPERTY

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APPENDIX C

THE BONDS ARE NOT OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA (OTHER THAN THE COMMONWEALTH'S OBLIGATION TO MAKE ANY ANNUAL LEASE PAYMENTS TO THE AUTHORITY UNDER THE COMMONWEALTH LEASE, WHICH IS SUBJECT TO ANNUAL APPROPRIATION BY THE PENNSYLVANIA GENERAL ASSEMBLY.) THE FULL FAITH AND CREDIT OF THE COMMONWEALTH IS NOT PLEDGED FOR THE PAYMENT OF THE BONDS. THE INFORMATION INCLUDED IN THIS APPENDIX IS FOR INFORMATION PURPOSES ONLY.

FINANCIAL AND OTHER INFORMATION RELATING TO THE COMMONWEALTH

The Commonwealth is organized into three separate branches of government — executive, legislative and judicial — as defined in the 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>
Edward G. Rendell	Governor	January 18, 2011
Catherine Baker Knoll	Lieutenant Governor	January 18, 2011
Tom Corbett	Attorney General	January 20, 2009
Robin L. Wiessmann*	State Treasurer	January 20, 2009
Jack Wagner	Auditor General	January 20, 2009

* Replacement appointed by the Governor and confirmed by the Pennsylvania Senate on April 30, 2007.

Commonwealth Employees

Employees are permitted to organize and bargain collectively. As of July 2007, 82 percent of the full-time salaried employees under the Governor's jurisdiction were covered by collective bargaining agreements or memoranda of understanding. Approximately 45 percent of state employees are represented by the American Federation of State, County and Municipal Employees ("AFSCME"). Approximately 72.5 percent of state employees, represented by the AFSCME, Pennsylvania Social Services Union and other unions, are covered by contracts effective July 1, 2007 and expiring on June 30, 2011. These contracts provide for a \$1,250.00 one-time cash bonus payment, which is equivalent to approximately 2.8 percent in the first year of the contract, and ten percent salary increases over the last three-year life of the contracts. Interest arbitration awards cover five other unions. Three of the awards expire June 30, 2007. The other two awards expire June 30, 2008 and provide, respectively, a 14 percent increase over their four year life, and a 10 percent increase over a three year term. Table 4 presents the number of approved and filled positions under the Governor's jurisdiction for the period 2002 through 2006.

Negotiations have begun for the collective bargaining agreements which are set to expire on June 30, 2007.

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Table 4
Filled Salaried Positions and Employees
Under the Governor's Jurisdiction^(a)
2002-2006

As of July 1	Total Full and Part Time Filled Salaried Positions	Total Full Time Salaried Employees	Civil Service Salaried Positions	Civil Service As a % of Total Filled Salaried Positions
2002	80,146	79,665	56,296	70.2
2003	78,691	78,691	54,817	69.7
2004	76,410	76,087	52,869	69.5
2005	77,041	76,726	53,163	69.0
2006	78,733	78,366	54,428	69.1

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

COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES

The Constitution and the laws of the Commonwealth require all payments from the State Treasury, with the exception of refunds of taxes, licenses, fees and other charges, to be made only by duly enacted appropriations. Amounts appropriated from a fund may not exceed its actual and estimated revenues for the fiscal year plus any unappropriated surplus available. Appropriations from the principal operating funds of the Commonwealth (the General Fund, the Motor License Fund and the State Lottery Fund) are generally made for one fiscal year and are returned to the unappropriated surplus of the fund (a lapse) if not spent or encumbered by the end of the fiscal year. The Commonwealth's fiscal year begins July 1 and ends June 30. (Fiscal year 2007 refers to the fiscal year ended June 30, 2007.) See Appendix C for a further description of the fiscal administration of the Commonwealth.

Description of Funds

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

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

The Motor License Fund receives all tax and fee revenues relating to motor fuels and vehicles except the revenues from one-half cent per gallon of the liquid fuels tax, which are deposited in the Liquid Fuels Tax Fund for distribution to local municipalities. All revenues relating to motor fuels and vehicles are required by the Constitution to be used only for highway purposes. Most federal aid revenues designated for transportation programs and tax

revenues relating to aviation fuels are also deposited in the Motor License Fund. Operating and administrative costs for the Department of Transportation and other Commonwealth departments conducting transportation related programs, including the highway patrol activities of the Pennsylvania State Police, are also paid from the Motor License Fund. Debt service on bonds issued by the Commonwealth for highway purposes is payable from the Motor License Fund.

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

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

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

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

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

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

Accounting Practices

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

Budgetary Basis

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

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

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

GAAP Financial Reporting

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

Fund financial statements of the Commonwealth prepared under GAAP differ from those traditionally prepared on a budgetary basis for several reasons. Among other differences, the GAAP fund financial statements (i) generally recognize revenues when they become measurable and available rather than when cash is received, (ii) report expenditures when goods and services are received and a liability incurred rather than when cash is disbursed,

(iii) include a combined balance sheet for the Commonwealth presented by GAAP fund type rather than by Commonwealth fund, and (iv) include activities of all funds in the reporting entity, including agencies and authorities usually considered as independent of the Commonwealth for budgetary purposes. Adjustments to budgetary basis revenues and expenditures required to conform to GAAP accounting generally require including (i) corporation, sales, and personal income tax accruals, (ii) tax refunds payable and tax credits, and (iii) expenditures incurred but not yet posted as expenditures or not covered by appropriations.

An independent public accounting firm and the Department of the Auditor General jointly audit the Commonwealth's annual GAAP basis financial statements. The audited Basic Financial Statements are a component of the Commonwealth's Comprehensive Annual Financial Report ("CAFR"). The CAFRs for recent fiscal years, including the fiscal year ended June 30, 2006, have been filed with each Nationally Recognized Municipal Information Repository (a "NRMSIR") currently recognized by the Securities and Exchange Commission and are available from any NRMSIR and at the Budget & Financial Reports section of the Office of the Budget's web site - www.budget.state.pa.us - and such CAFRs are incorporated herein by reference. In February 2004, the Commonwealth restated its GAAP basis financial statements for the fiscal year ended June 30, 2002, for reasons discussed in "COMMONWEALTH FINANCIAL PERFORMANCE – Restatement of Financial Statements." The Commonwealth has filed both the restated financials and restated CAFR with each NRMSIR and has posted them at the Office of the Budget's web site. **Beginning with the CAFR for the fiscal year ended June 30, 2002 and continuing in subsequent CAFRs, the Commonwealth has incorporated several new accounting and reporting standards that affect the comparability of financial information for those fiscal years to GAAP basis financial information reported for fiscal years prior to the adoption of the new standards. See "New Governmental Accounting and Reporting Standards" below.**

New Governmental Accounting and Reporting Standards

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

Investment of Funds

The Treasury Department is responsible for the deposit and investment of most funds belonging to the Commonwealth, including the proceeds of the Bonds and the funds held for the periodic payment of interest on and maturing principal of the Bonds. The Commonwealth's Fiscal Code contains statutory limitations on the investment of funds by the Treasury Department. The Board of Finance and Revenue, a six-person board of state officials

chaired by the State Treasurer, is authorized to establish the aggregate amount of funds that may be invested in some of the various categories of permitted investments. The State Treasurer ultimately determines the asset allocation and selects the investments within the parameters of the law.

The Commonwealth's Fiscal Code permits investments in the following types of securities: (i) United States Treasury securities and United States Agency securities maturing within two years of issue; (ii) commercial paper issued by industrial, common carrier or finance companies rated "Prime One" or its equivalent; (iii) certificates of deposit of Pennsylvania-based commercial banks, savings banks or savings and loans; (iv) repurchase obligations secured with obligations described under (i); (v) banker's acceptances written by domestic commercial banks with a rating of "Aa" or better, or its equivalent; and (vi) other non-equity investments subject to a "prudent investor" test not to exceed ten percent of assets. 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.

Additionally, in June 1999, legislation authorized the State Treasurer to invest Commonwealth moneys in equity securities under a prudent person standard. 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 equity securities. The legislative authorization to invest in equity securities has been extended until December 2008.

Budget Stabilization Reserve Fund and Tax Stabilization Reserve Fund

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

Balances in the Budget Stabilization Reserve Fund, the successor to the Tax Stabilization Reserve Fund, may be used to alleviate emergencies threatening the health, safety or welfare of the Commonwealth's citizens or to offset unanticipated revenue shortfalls due to economic downturns. Income to the fund is provided by the transfer of a legislatively determined portion of the General Fund budgetary basis unappropriated surplus at the close of a fiscal year, by investment income to the fund, and by specific appropriation from other available funds by the General Assembly. The Budget Stabilization Reserve Fund is intended to accumulate a balance equal to 6 percent of General Fund revenues. Beginning with fiscal year 2003, 25 percent of any fiscal year-end surplus is to be deposited into the Budget Stabilization Reserve Fund. When the Budget Stabilization Reserve Fund balance reaches or exceeds a level equal to 6 percent of General Fund revenues, the proportion of the General Fund's fiscal year-end balance to be transferred to the Budget Stabilization Reserve Fund is to be lowered from 25 percent to 10 percent. The General Assembly may appropriate additional amounts to this fund at any time. At the end of the 2005 fiscal year, the Commonwealth's unappropriated surplus balance was \$429.2 million and a one-time reduction in the transfer rate from 25 percent to 15 percent resulted in a statutorily required transfer of nearly \$64.4 million to the Budget Stabilization Reserve Fund. For fiscal year 2006, \$171.4 million has been transferred to the Fund, which represents the required statutory transfer of 25 percent of the \$685.4 million unappropriated surplus balance. At present, the Commonwealth maintains a balance of approximately \$531.8 million in the Budget Stabilization Reserve Fund. Further, as of April 2007, the Commonwealth maintains balances in various funds and accounts, including the Budget Stabilization Reserve Fund, totaling approximately 6.0 percent of the Commonwealth's annual operating costs. See data contained in Table 8 for additional information. These additional funds may become available through either executive or legislative action to address unforeseen budgetary stresses that could occur. Balances in the Budget Stabilization Reserve Fund are to be used only when emergencies involving the health, safety or welfare of the residents of the Commonwealth or downturns in the economy resulting in significant unanticipated revenue shortfalls cannot be dealt with through the normal budget process. Funds in the Budget Stabilization Reserve Fund may be appropriated only upon the recommendation of the Governor and the approval of a separate appropriation

bill by a vote of two-thirds of the members of both houses of the General Assembly. However, Act 66 of 2006, provided the Secretary of the Budget with the option to transfer up to \$290 million from the Budget Stabilization Reserve Fund to the operating budget to cover certain state appropriations related to health care costs within the Department of Public Welfare. Such a transfer could be authorized by the Secretary of the Budget if sufficient funds to cover said health care costs were not sufficiently appropriated as part of the fiscal year 2007 budget. The Budget Secretary has not authorized a transfer from the Budget Stabilization Reserve Fund under the provisions of Act 66 of 2006 nor is he compelled to do so. Any funds appropriated from the Budget Stabilization Reserve Fund that are unspent are returned to the Budget Stabilization Reserve Fund.

COMMONWEALTH FINANCIAL PERFORMANCE

Recent Developments

On February 6, 2007, the Governor submitted to the General Assembly his proposed fiscal year 2008 budget. See “Fiscal Year 2008 Proposed Budget.”

The CAFR for the fiscal year ended June 30, 2006 was issued on December 22, 2006. The CAFR, beginning with the one issued for the fiscal year ended June 30, 2002, incorporates several new accounting and reporting standards that affect the comparability of financial information for that fiscal year and subsequent fiscal years to GAAP basis financial information reported for fiscal years prior to the adoption of the new standards. Also beginning with the fiscal year ended June 30, 2002, the CAFR provides a new presentation of government-wide financial statements that are intended to provide an all-encompassing view of a government’s financial condition and activities. See the discussion in “COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES – New Governmental Accounting and Reporting Standards” and below in “Government-Wide Financial Data (GAAP Basis).”

The current economic expansion has been moderating significantly at both the national and state levels over the past year. Growth, however, continues to increase the revenue receipts to the Commonwealth. General Fund revenue estimates incorporated in the enacted budget for fiscal year 2007 included a projected growth in receipts of 3.7 percent, while actual receipts through April 2007 have grown by 5.5 percent on a year-over-year basis. In February 2007, the Governor’s proposed budget for fiscal year 2008 included a slight upward revision of \$66 million or 0.2 percent to the fiscal year 2007 General Fund revenue estimate to reflect the moderating national and state economies. Actual revenues through April 2007 are \$207.8 million or 0.9 percent above the estimate enacted in July 2006, as part of the fiscal year 2007 budget. Based on projections of revenues, as incorporated in the Governor’s proposed fiscal year 2008 budget released in February, the General Fund is currently projected to have a preliminary ending balance of nearly \$50.0 million. See “Fiscal Year 2007 Budget.”

Introduction

The most recent audited financial statements for a fiscal year are available in the CAFR issued by the Commonwealth for the fiscal period ended June 30, 2006 (“fiscal year 2006”), which was filed with each NRMSIR in February 2007. Beginning with the CAFR for fiscal year 2002, the Commonwealth incorporated New Standards that affect the comparability of financial information for that fiscal year to GAAP basis financial information reported for fiscal years prior to the adoption of the New Standards. See “COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES - New Governmental Accounting And Reporting Standards.” Information contained in the fund financial statements for fiscal years 2002 through 2006 continue to report what was formerly reported for governmental funds in the General Purpose Financial Statements in CAFRs for prior fiscal years, although fund reclassifications and changed definitions for categories of expenditures for fiscal year 2002 and beyond will hamper comparability to data for prior fiscal years.

Copies of CAFRs recently issued by the Commonwealth are available from (i) any NRMSIR listed in the section “CONTINUING DISCLOSURE”, (ii) the Secretary of the Budget, Mr. Michael Masch, Attn: Mr. Mike Higgins, 6th Floor, Strawberry Square Bell Tower, Harrisburg, Pennsylvania 17101 (Telephone (717) 787-5312), and (iii) the Budget & Financial Reports section of the Office of the Budget’s web site at www.budget.state.pa.us,

which CAFRs are incorporated herein by reference. The basic financial statements for fiscal year 2006 are incorporated herein by the above reference as to their availability by other than in this Official Statement. This means that (i) the incorporated information is considered part of this Official Statement, and (ii) such information should be reviewed by prospective purchasers of the Bonds as a part of their review of this entire Official Statement.

Government-Wide Financial Data (GAAP Basis)

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

Table 5, on the following page, presents condensed financial statement information derived from the Commonwealth's government-wide June 30, 2006 Statement of Net Assets and includes amounts for the "primary government" only.

Table 5
Condensed Statement of Net Assets
Primary Government
Fiscal Year Ended June 30, 2006
(In Billions)

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments.....	\$ 11.1	\$ 6.2	\$ 17.3
Capital assets (net).....	22.8	-	22.8
All other assets.....	6.1	1.4	7.5
Total Assets.....	\$ 40.0	\$ 7.6	\$ 47.6
Liabilities:			
Accounts payable.....	\$ 4.1	\$ 0.5	\$ 4.6
All other current liabilities.....	4.0	1.4	5.4
Total Current Liabilities.....	8.1	1.9	10.0
Bonds payable.....	7.1	-	7.1
All other long-term liabilities.....	2.2	2.4	4.6
Total long-term liabilities.....	9.3	2.4	11.7
Total liabilities.....	\$ 17.4	\$ 4.3	\$ 21.7
Net assets:			
Invested in capital assets, net of related debt.....	\$ 19.1	-	\$ 19.1
Restricted.....	3.9	\$ 3.3	7.2
Unrestricted.....	(0.4)	-	(0.4)
Total Net Assets.....	\$ 22.6	\$ 3.3	\$ 25.9

Source: Comprehensive Annual Financial Report, fiscal year ended June 30, 2006.

During the fiscal year ended June 30, 2006, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, increased by \$2.5 billion or nearly 10.7 percent of total beginning net assets of \$23.4 billion. For governmental activities, the net increase in net assets was \$1.8 billion or 8.6 percent of beginning net assets of \$20.8 billion. Total investments, excluding the State Employees' Retirement Fund and all other fiduciary funds, totaled over \$15.6 billion and total cash balances were over \$1.6 billion. These amounts represent considerable liquidity for the current and future fiscal years. The increase in governmental activities net assets (\$1.8 billion) significantly exceeded the prior year change, where revenues, transfers and special items exceeded expenses by \$1.1 billion. These increases represent year-over-year improvements in the Commonwealth's overall financial position, during the two fiscal years ended June 30, 2006 and 2005. The \$0.7 billion increase in total net assets for business-type activities follows a \$0.5 billion increase during the prior fiscal year. This \$0.2 billion improvement is primarily attributable to a net assets increase of \$0.5 billion in the unemployment compensation program, where the prior year net assets increase was \$0.3 billion. During the current fiscal year, unemployment compensation revenues and expenses increased; in the prior year revenues increased and expenses decreased by a large amount. Statutory contribution increases occurred during each of the fiscal years. Such increases are intended to eliminate or avoid net assets decreases in the unemployment compensation program. During the fiscal year ended June 30, 2006, aggregate increases in net assets of the State Workers' Insurance Fund, the State Lottery Fund and the Tuition Payment Fund amounted to over \$190 million, after net transfers to other Funds.

Financial Data for Governmental Fund Types (GAAP Basis)

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

The governmental funds balance sheet reports total fund balances for all governmental funds. Assets of the Commonwealth's governmental funds (the General Fund, the Motor License Fund and the Tobacco Settlement Fund are major governmental funds) as of June 30, 2006 were \$17,150.93 million. Liabilities for the same date totaled \$9,501.05 million, leaving a fund balance of \$7,649.9 million, an increase of \$667.89 million from the fund balance at June 30, 2005. On a fund specific basis, the fund balance for the General Fund increased by \$537.14 million, the fund balance for the Motor License Fund increased by \$255.88 million, the fund balance for the Tobacco Settlement Fund increased by \$168.85 million and the fund balance for aggregated non-major funds increased by \$204.97 million. See "General Fund – Fiscal Year 2006 Financial Results."

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

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Table 6
Reconciliation of the Balance Sheet
Governmental Funds (Fund Perspective) to
the Statement of Net Assets - Governmental Activities
June 30, 2006
(In Thousands)

Fund Balances - Governmental Funds	
General Fund.....	\$ 2,969.5
Motor License Fund.....	1,549.1
Tobacco Settlement Fund.....	1,095.3
Nonmajor Funds.....	2,036.0
Total Fund Balance - Governmental Funds.....	\$ 7,649.9
Plus: Capital Assets, including infrastructure.....	34,390.2
Less: Accumulated depreciation.....	(11,659.8)
Plus: Deferred revenue.....	2,064.6
Plus: Additional accrued receivables.....	212.2
Plus: Net assets of internal service funds.....	108.7
Plus: Inventories.....	88.0
Less: Long-term liabilities.....	(10,261.8)
Total Net Assets - Governmental Activities.....	\$ 22,592.0

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

The financial tables that follow containing GAAP basis financial data are unaudited but are derived from the Commonwealth's audited financial statements. The discussion of financial performance on a budgetary basis for prior fiscal years is based on an analysis of budget numbers and not on numbers prepared in accordance with GAAP. Likewise, the discussion of the financial estimates for fiscal year 2007 and the proposed budget for fiscal year 2008 reflects a budgetary basis analysis rather than a GAAP basis analysis.

General Fund

Financial Results for Recent Fiscal Years (GAAP Basis)

During the five-year period from fiscal year 2002 through fiscal year 2006, total revenues and other sources increased by an average of 6.3 percent annually. Tax revenues during this same period increased by an annual average of 7.4 percent with a portion of the average annual growth rate attributable to various tax rate and base changes enacted over the same period. During the past several fiscal years, fees and license income and other financing sources such as transfers from other funds have continued to become a larger portion of income to the General Fund. Expenditures and other uses during the fiscal years 2002 through 2006 rose at an average annual rate of 4.9 percent. Comparison of expenditures by individual category in fiscal years 2002 through 2006 to prior fiscal years is not reliable due to a change to the definitions for these expenditure categories in fiscal year 2002.

The fund balance at June 30, 2006 totaled \$2,969.5 million, an increase of \$100.4 million from the balance at June 30, 2005. The fiscal year 2006 year-end unreserved-undesignated portion of the fund balance was \$789.9 million, \$137.3 million below the amount recorded for fiscal year 2005 at years end.

Table 7 on the next page presents a summary of revenues and expenditures (GAAP basis for the General Fund, including the Budget Stabilization Reserve Fund that replaced the Tax Stabilization Reserve Fund) for the fiscal years 2002 through 2006.

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

	Fiscal Year Ended June 30				
	2002(a)	2003	2004	2005	2006
Fund Balance — Beginning of Period	\$ 4,484,995	\$ 3,022,842	\$ 2,357,713	\$ 3,006,514	\$ 2,869,109
Restatements.....	159,919	-	-	-	-
Fund Balance —					
Beginning of Period, as Restated.....	\$ 4,644,914	\$ 3,022,842	\$ 2,357,713	\$ 3,006,514	\$ 2,869,109
Revenues:					
Taxes.....	\$ 18,649,928	\$ 19,553,998	\$ 21,190,494	\$ 22,841,136	\$ 24,783,040
Licenses and fees.....	201,388	250,264	275,898	300,450	294,728
Intergovernmental.....	11,652,199	12,943,624	14,790,701	15,102,454	14,662,940
Other revenues.....	2,539,271	2,313,183	2,423,649	4,053,837	2,970,801
Other Financing Sources:					
Operating transfers in.....	213,419	425,875	133,670	62,912	88,930
Transfer from component unit.....	256,206	-	-	-	-
Other additions.....	4,428	3,851	1,535	640	568
TOTAL REVENUES AND OTHER SOURCES.....	\$ 33,516,839	\$ 35,490,795	\$ 38,815,947	\$ 42,361,429	\$ 42,801,007
Expenditures: (b)					
Direction and supportive services.....	\$ 910,399	\$ 854,434	\$ 1,412,250	\$ 2,047,999	\$ 2,062,113
Protection of persons and property.....	3,104,079	2,941,339	2,958,160	3,013,875	3,278,962
Health and human services.....	18,221,987	19,549,141	20,816,721	23,361,454	23,135,166
Public education.....	8,813,198	10,174,386	10,520,428	11,382,118	11,666,929
Recreation and cultural enrichment.....	326,361	324,186	225,367	292,981	297,854
Economic development.....	824,830	984,334	963,926	987,325	956,411
Transportation.....	315,591	407,328	351,911	449,228	443,270
Capital outlay.....	50,818	17,698	142,651	27,305	27,758
Debt service.....	-	-	-	-	5,064
Other Uses:					
Operating transfers out.....	1,528,451	903,078	775,732	936,549	827,040
Transfers to component units.....	1,043,197	-	-	-	-
TOTAL EXPENDITURES AND OTHER USES	\$ 35,138,911	\$ 36,155,924	\$ 38,167,146	\$ 42,498,834	\$ 42,700,567
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURE AND OTHER USES.....	(1,622,072)	(665,129)	648,801	(137,405)	100,440
Residual Equity Transfer In (Out)	-	-	-	-	-
Fund Balance — End of Period	\$ 3,022,842	\$ 2,357,713	\$ 3,006,514	\$ 2,869,109	\$ 2,969,549
Components of Fund Balance					
Reserved for encumbrances.....	\$ 479,314	\$ 341,881	\$ 259,178	\$ 617,861	\$ 709,115
Reserved for advances and other.....	315,822	431,552	622,292	809,911	751,062
Unreserved — designated.....	623,884	269,775	491,718	514,174	719,414
Unreserved — undesignated.....	1,603,822	1,314,505	1,633,326	927,163	789,958
TOTAL FUND BALANCE.....	\$ 3,022,842	\$ 2,357,713	\$ 3,006,514	\$ 2,869,109	\$ 2,969,549

1. Restated. For the fiscal year ended June 30, 2002 and subsequent fiscal years, the Commonwealth has adopted several new accounting and reporting standards described earlier in "COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES – New Governmental Accounting and Reporting Standards." The new standards require numerous changes to how fund financial statements are presented. Certain funds have been reclassified and fund balances restated. See Note B to the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002 for a more detailed explanation. These changes may limit the comparability of that year's data and subsequent data to data for prior fiscal years.
2. Beginning with the fiscal year ended June 30, 2002, the number and the definition of the functional categories of expenditures have been revised. These changes limit the comparability of fiscal years' 2002 through 2006 data to data shown for prior fiscal years.

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2002 through 2006.

Fiscal Year 2005 Financial Results

GAAP Basis. At June 30, 2005, the General Fund reported a fund balance of \$2,869.1 million, a decrease of \$137.4 million from the reported \$3,006.5 million fund balance at June 30, 2004. On a net basis, total assets decreased by \$601 million to \$9,863 million. Liabilities decreased by \$463 million to \$6,994 million largely because of a smaller securities lending program (\$369 million) and a lower accounts payable (\$156 million).

General Fund tax revenues increased by 8 percent due to overall economic growth, including nearly identical percentage increase in personal income tax revenue during the fiscal year ended June 30, 2005. Intergovernmental revenues increased by only \$311 million, almost solely due to increases in federally-funded medical and other assistance, where expenditures increased significantly over the prior year. Charges for sales and services increased by nearly \$2 billion, more than doubling prior year revenues of \$1,751 million because of specific program funding changes, including nursing home assessments associated with an increase in health and human services expenditures. Total General Fund revenues increased by 9 percent during the fiscal year. The overall decrease in fund balance, \$137.4 million, during the fiscal year was \$787 million less than the prior fiscal year increase in fund balance of \$649 million. Total General Fund expenditures increased by 11 percent during the fiscal year ended June 30, 2005, on a GAAP-reported basis, largely because of a \$2.5 billion increase in expenditures for medical and other assistance (reported as part of health and human services). This increase was caused by significant increases in utilization (participation) and per-unit health care cost increases. Expenditures for direction and support services increased due to significantly higher reported employer costs for active and retired employee healthcare benefits. Higher public education appropriations resulted in an \$861 million expenditure increase. Actual, final General Fund expenditures (budgetary basis) increased by 9 percent over the prior fiscal year, while revenues (budgetary basis) increased by 10 percent.

Budgetary Basis. Total fiscal year 2005 revenues, net of reserves for tax refunds and including intergovernmental transfers and additional resources, totaled \$24,405.6 million. Total expenditures net of appropriation lapses and including intergovernmental transfers and expenditures from additional resources were \$24,053.9 million. As result of Commonwealth financial operations during the fiscal year, the preliminary unappropriated surplus balance, prior to the statutorily required 25 percent transfer to the Budget Stabilization Reserve Fund, was \$429.2 million, an increase of \$162.5 million from the fiscal year 2004 preliminary ending balance. Following the statutorily required 25 percent transfer to the Budget Stabilization Reserve Fund (\$64.4 million) the fiscal year 2005 final unappropriated surplus balance was \$364.8 million as of June 30, 2005.

The fiscal year 2005 budget was based initially on an estimated 4.5 percent increase for Commonwealth General Fund revenues prior to accounting for any changes in tax and revenue provisions enacted in the second half of fiscal year 2004. After adjustments for various tax rate and tax base changes enacted for the fiscal year 2004 budget, total Commonwealth General Fund revenues were projected to increase 3.8 percent over fiscal year 2004 actual receipts and total \$23,866.5 million prior to reserves for tax refunds. Total fiscal year 2005 Commonwealth revenues net of reserves for tax refunds, exceeded \$24,308.5 million, a 6.5 percent increase over fiscal year 2004 receipts. The tax revenue component of Commonwealth receipts, including the effects of the tax rate and tax base changes enacted in fiscal year 2004, rose \$1,666.4 million or 7.6 percent over fiscal year 2004 actual receipts. An estimated two-thirds of the increase in tax revenues is associated with the various tax rate and tax base changes. Major components of the tax revisions were: (i) an increase in the personal income tax from 2.8 percent to 3.07 percent; (ii) a restructuring of taxation of telecommunications to include the imposition of the gross receipts tax on cellular and interstate telecommunication as well as certain sales and use tax exemptions for particular telecommunications activities; (iii) an increase to the cigarette tax from \$1.00 per pack to \$1.35 per pack, a portion of which was transferred to the new Health Care Provider Retention Account to be used to provide financial assistance for malpractice premiums for certain physicians practicing in particular high-risk medical specializations under the medical malpractice abatement program. This program was enacted for calendar years 2003 and 2004, and the General Assembly approved an extension for an additional year in 2005; (iv) a modification of the scheduled phase-out of the capital stock and franchise tax for tax years 2003 and 2004; and (v) various other tax rate and tax base revisions, including some tax cuts. Total revenues to the Commonwealth exceeded the budget estimate by \$442.0 million or 1.9 percent. Personal income tax receipts grew by \$1,013 million or 13.1 percent over fiscal year

2004 revenues. Revisions to the personal income tax rate in December 2003 contributed to the large year-over-year increase in these receipts. During fiscal year 2005, corporate tax receipts grew \$285.1 million or 10.7 percent, which generally reflected improvements in the overall state and national economy. Sales and use tax revenues to the Commonwealth grew \$271.4 million or 3.5 percent over fiscal year 2004 receipts. Receipts of Commonwealth non-tax revenues continued to exceed the estimate as total revenue from this source exceeded \$596.0 million. Earnings from investments and revisions to the Commonwealth's escheats program continued to provide revenues well in excess of the estimate for fiscal year 2005. Various revisions to the Commonwealth's escheat program were enacted as part of the fiscal year 2003 and 2004 budgets. These revisions to the escheat program have produced substantial non-recurring revenues during each of the two most recent fiscal years. Additionally, significant non-recurring capital gains earnings on the investment of available General Fund cash balances (See "General Fund Fiscal Year 2004 Financial Results") and increased contributions from the Commonwealth's liquor store profits contributed to enhanced non-tax revenues during the prior two fiscal years. Reserves for tax refunds in fiscal year 2005 were \$1,000.0 million, a decrease of \$14.7 million or 1.4 percent from fiscal year 2004 levels.

Fiscal year 2005 state-level expenditures, including supplemental appropriations and net of appropriation lapses, totaled \$22,956.8 million, an increase of 5.6 percent from fiscal year 2004 appropriations. A total of \$148.1 million in appropriations were lapsed in fiscal year 2005 and the fiscal year 2005 budget continued to utilize an enhanced level of intergovernmental transfers for a portion of medical assistance costs, albeit at a reduced rate from fiscal year 2004. Intergovernmental transfers replaced \$697.9 million of General Fund medical assistance costs in fiscal year 2005, compared to \$738.7 million in fiscal year 2004. In addition, approximately \$399 million in additional funds, primarily \$377.6 million of remaining federal fiscal relief, was appropriated in fiscal year 2005 to fund expenditures normally funded from Commonwealth revenues. The ending unappropriated balance was \$364.8 million for fiscal year 2005.

Fiscal Year 2006 Financial Results

GAAP Basis. At June 30, 2006, the General Fund reported a fund balance of \$2,969.5 million, an increase of \$100.4 million from the reported \$2,869.1 million fund balance at June 30, 2005. On a net basis, total assets increased by \$537.1 million to \$10,400.2 million. Liabilities increased by \$436.8 million to \$7,430.7 million largely because of an increase in unearned revenue (\$348 million) and an increase in accounts payable (\$235 million).

General Fund tax revenues increased by 9 percent due to significant economic growth; both corporation and personal income tax collections rose an average of 9 percent during the fiscal year ended June 30, 2006. Sales and use tax collections increased by 4.2 percent. Intergovernmental revenues decreased by \$439 million, resulting from lower amounts appropriated for Federal participation in medical and other assistance. Charges for sales and services decreased by \$981 million due to specific program funding changes, including nursing home assessments. Total General Fund revenues increased by \$414 million (0.98 percent) during the fiscal year. The overall increase in fund balance, \$101 million, during the fiscal year was \$239 million more than the prior fiscal year decrease in fund balance \$138 million. Total General Fund expenditures increased by less than 1 percent during the fiscal year ended June 30, 2006, by \$311 million. Expenditures for Protection of persons and property increased by \$265 million due primarily to increases in amounts appropriated/expended for state police activities. Public education expenditures increased by \$285 million due primarily to increases in basic and other subsidies to school districts; net changes in higher education subsidies were not significant. Health and human services expenditures decreased by \$227 million, caused by lower aggregate demand and utilization of medical and other assistance during the fiscal year. Actual, final General Fund expenditures (budgetary basis) increased by 3.1 percent over the prior fiscal year, while revenues (budgetary basis) increased 2.8 percent.

Budgetary Basis. During fiscal year 2006, revenues to the Commonwealth exceeded the certified estimate by \$864.6 million or nearly 3.5 percent. Final Commonwealth General Fund revenues for the fiscal year totaled \$25,854.1 million. Total fiscal year 2006 revenues, net of reserves for tax refunds and including intergovernmental transfers and additional resources, totaled \$25,700.9 million. Total expenditures, net of appropriation lapses and including intergovernmental transfers and expenditures from additional sources, was \$25,380.3 million. As result of Commonwealth financial operations during the fiscal year, the preliminary

unappropriated surplus balance, prior to the statutorily required 25 percent transfer to the Budget Stabilization Reserve Fund, increased to \$685.4 million, including the beginning balance from the prior year of operations. Accordingly, 25 percent of this preliminary balance or \$171.4 million was transferred to the Budget Stabilization Reserve Fund. The final fiscal year 2006 unappropriated surplus balance was \$514.1 million as of June 30, 2006.

Revenues available to the Commonwealth, including intergovernmental transfers and additional sources, increased 5.3 percent. Fiscal year 2006 revenues (all sources) totaled \$25,700.9 million, an increase of \$1,295.3 million over fiscal year 2005. Intergovernmental transfer proceeds increased \$3819 million or 5.5 percent, while funding from additional sources decreased \$253.3 million or 63 percent, primarily due to the expiration of the previously available one-time federal fiscal relief that had been made available to the various states. General Fund revenues grew \$1,563 million or 6.3 percent during fiscal year 2006 when measured on a year-over-year basis. Corporate tax receipts grew \$425.8 million over estimate, an 8.9 percent surplus to the year-to-date estimate. Personal income taxes were \$342.6 million over the estimate, a surplus of 3.7 percent versus the year-to-date estimate. Sales and use taxes were essentially at estimate as actual receipts were \$65.2 million above estimate, a difference of 0.8 percent from the fiscal year estimate. Realty transfer tax revenues also exceeded the estimate by \$61.4 million or 12.5 percent based in part on continuation of a strong housing market within the Commonwealth. Non-tax revenues of the Commonwealth were below estimate for fiscal year 2006 by \$61.4 million or 11.3 percent, due primarily to lower than projected earnings from the Commonwealth's escheats program. Reserves for tax refunds in fiscal year 2006 were \$1,035 million, an increase of 3.5 percent from the fiscal year 2005 reserves. At the end of fiscal year 2006, approximately \$103 million of reserves were available for making tax refunds in the following fiscal year.

In July 2005, the General Assembly approved and the Governor signed into law Act 45 of 2005, which authorized the issuance of up to \$625 million in debt of the Commonwealth to support programs commonly referred to as "Growing Greener II." The enactment of Act 45 implements the Governor's major environmental initiative in the fiscal year 2006 budget. The Growing Greener II program will provide bond funding for the maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives. Additionally, Act 45 of 2005 authorizes the Governor to direct up to \$60 million in existing Growing Greener fees, that are otherwise directed into the Commonwealth's Environmental Stewardship Fund, to support General Fund debt service for the authorized Growing Greener II bond issuances.

Fiscal year 2006 appropriations from Commonwealth revenues, including supplemental appropriations and net of appropriation lapses, totaled \$24,664.6, an increase of 7.4 percent from fiscal year 2005 expenditures. A total of \$181.8 million in appropriations were lapsed in fiscal year 2006, and the fiscal year 2006 budget continued to utilize an enhanced level of intergovernmental transfers for a portion of medical assistance costs. Intergovernmental transfers replaced \$735.7 million of General Fund medical assistance costs in fiscal year 2006, compared to \$697.9 million in fiscal year 2005. In addition, approximately \$145.9 million in additional funds were appropriated in fiscal year 2006 to fund expenditures normally funded from Commonwealth revenues, a decrease from \$399 million in fiscal year 2005. The ending unappropriated balance was \$514.1 million for fiscal year 2006.

Fiscal Year 2007 Budget

The adopted fiscal year 2007 budget and proposed supplemental appropriations provide appropriations totaling \$26,326.8 million of Commonwealth funds against estimated revenues, net of tax refunds and proposed tax reductions, of \$25,766.2 million. The \$560.61 million difference between estimated revenues and budgeted appropriations is funded by a draw down of the \$514 million beginning balance as well as from the utilization of \$95 million in prior and current year lapses. Additionally, the enacted fiscal year 2007 budget allocates additional state funds to replace significant amounts of formerly available intergovernmental transfer transaction-derived federal funds.

The fiscal year 2007 revenue estimate for the Commonwealth is based upon an economic forecast of 3.0 percent growth in gross domestic product from the start of the third quarter of 2006 to the end of the second quarter of 2007. Trends in the Commonwealth's economy are expected to maintain their close association with national

economic trends. Personal income growth in Pennsylvania is projected to remain slightly below that of the United States, while the Pennsylvania unemployment rate is anticipated to be close to the national rate. The tax revenue component of Commonwealth General Fund receipts is expected to increase by \$804.7 million or approximately 3.2 percent prior to reserves for refunds. Fiscal year 2007 Commonwealth revenues from the personal income tax are forecast to increase by 4.6 percent, while receipts from the sales and use tax are estimated to rise 3.3 percent over fiscal year 2006 receipts. Corporate receipts are expected to grow in fiscal year 2007, at a rate of 6.4 percent and revenues from non-tax sources such as liquor store profits and earnings on investments forecast to increase by 29.0 percent. A majority of the projected increase in non-tax revenues is attributable to additional profit transfers from the state liquor stores.

The current economic expansion has been moderating significantly at both the national and state levels over the past year. Growth, however, continues to increase revenue receipts to the Commonwealth. General Fund revenue estimates incorporated in the enacted budget for fiscal year 2007 included a projected growth in receipts of 3.7 percent, while actual receipts through April 2007 have grown by 5.5 percent on a year-over-year basis. In February 2007, the Governor's proposed budget for fiscal year 2008 included a slight upward revision of \$66 million or 0.2 percent to the fiscal year 2007 General Fund revenue estimate to reflect the moderating national and state economies. Actual revenues through April 2007 are \$207.8 million or 0.9 percent above the estimate enacted in July 2006, as part of the fiscal year 2007 budget.

The Commonwealth's fiscal year 2007 enacted budget includes significant increases in funding for local school districts and higher education within the Commonwealth as the Basic Education appropriation is increased \$267 million or 5.9 percent, the largest increase since fiscal year 1992. Additionally, the Commonwealth's contribution to the Public School Employees Retirement System is increased \$114 million in fiscal year 2007, and the Pennsylvania Accountability Block Grant to local school districts is increased by \$50 million to \$250 million annually. The enacted budget also includes a new children's health insurance program called "Cover All Kids" which is intended to gradually expand available health insurance to all Pennsylvania children not currently covered by insurance. The Commonwealth's prescription drug coverage program is expanded to cover an additional 120,000 seniors within the next 18 months by building upon the federal Medicare Part D program. The enacted fiscal year 2007 budget reflects initiatives to increase the efficiency of government operations within the Commonwealth and includes estimates to save over \$1 billion annually in fiscal year 2007. The enacted budget for fiscal year 2007 also includes \$543.4 million in funding for various medical assistance expenditures through intergovernmental transfer proceeds, certain nursing home assessments and a tax on managed care organizations. This amount is an increase of 3.3 percent from the \$856.8 million in such proceeds utilized during fiscal year 2006. Under the intergovernmental transfer transactions, certain county governments contribute funds to the Commonwealth to help pay Medicaid expenses. The Commonwealth receives the contributions as augmentations to appropriations of Commonwealth revenues for the medical assistance program. These augmentations have the effect of supplementing the amount of Commonwealth revenues available for the medical assistance program and are available to match federal Medicaid funds. Federal authority for Pennsylvania to use the county contributions to pool transactions to match additional federal funds is currently scheduled to expire in 2010. Included in the Governor's proposed fiscal year 2008 budget is a request for supplemental appropriations for fiscal year 2007 totaling \$211.6 million. Additional funding via requested supplemental appropriations includes \$201 million in additional medical and other assistance funds. The preliminary fiscal year ending unappropriated balance, net of lapses and supplemental appropriations is currently estimated to be nearly \$49.9 million for fiscal year 2007. Following a statutorily-required transfer of 25 percent of this preliminary ending balance totaling \$12 million, the 2007 fiscal year ending unappropriated balance is currently estimated to be nearly \$37.5 million. The year ending unappropriated balance is currently estimated to be \$3.6 million for fiscal year 2007. A more detailed description of fiscal year 2007 expenditures among major program areas is provided in the section titled "COMMONWEALTH REVENUES AND EXPENDITURES."

As part of his fiscal year 2007 budget proposal, the Governor proposed a major program revision to the Commonwealth's Health Investment Plan, a series of health-related programs funded entirely from Tobacco MSA revenues. Currently, 100 percent of Tobacco MSA payments received are utilized for health care related expenditures and revenues received are statutorily distributed based upon enacted funding formula. The

Commonwealth's health research component currently receives 19 percent of annual Tobacco MSA funds and these funds are annually expended on health-related research projects undertaken by Pennsylvania-based researchers. The Governor's fiscal year 2007 budget proposed to create the Jonas Salk Legacy Fund, which would utilize half of the 19 percent (9.5 percent) of Tobacco MSA payments, currently dedicated to health research activities, to accelerate funding for bioscience research in Pennsylvania. Under this proposal, 9.5 percent of Tobacco MSA payments would be securitized through the issuance of approximately \$500 million in bonds, the proceeds of which would be used to accelerate the construction of bioscience facilities, including laboratories, incubators and research parks. The proposed debt would be issued over a two-year period following approval by the General Assembly and programs funded with this debt from the Jonas Salk Legacy Fund would require a dollar-for-dollar private match, thereby increasing total investment in biosciences research and facility construction to over \$1 billion. The proposed debt would be secured and paid solely from a pledge of 9.5 percent of the revenue from the Tobacco MSA. The General Assembly and the Governor continue to deliberate the proposal.

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

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

	<u>Actual</u> <u>Fiscal Year 2006</u>	<u>Estimate</u> <u>Fiscal Year 2007</u>	<u>Proposed</u> <u>Fiscal Year 2008</u>
Sources:			
Cash revenues	\$ 25,854.3	\$ 26,866.2	\$ 28,392.4
Tax refunds	(1,035.0)	(1,100.0)	(1,150.0)
Additional resources available	145.9	257.7	142.5
Intergovernmental transfer transactions ^(a)	<u>735.7</u>	<u>543.4</u>	<u>490.4</u>
TOTAL SOURCES	<u>\$ 25,700.9</u>	<u>\$ 26,567.3</u>	<u>\$ 27,875.3</u>
Uses:			
General fund appropriations	\$ 24,664.6	\$ 26,326.8	\$ 27,274.7
Expenditures from additional resources	145.9	257.7	142.5
Lapses and other reductions ^(b)	(165.9)	(95.0)
Intergovernmental transfer transactions ^(a)	<u>735.7</u>	<u>543.4</u>	<u>490.4</u>
TOTAL USES	<u>\$ 25,380.3</u>	<u>\$ 27,032.9</u>	<u>\$ 27,907.6</u>
OPERATING BALANCE	<u>\$ 320.6</u>	<u>\$ (465.6)</u>	<u>\$ (32.3)</u>
BEGINNING UNAPPROPRIATED BALANCE	364.8	514.1	37.5
ADJUSTMENT TO UNAPPROPRIATED BALANCE ^(c)	1.5
TRANSFER (TO)/FROM BUDGET STABILIZATION RESERVE FUND	<u>(171.4)</u>	<u>(12.5)</u>	<u>(1.2)</u>
ENDING UNAPPROPRIATED BALANCE	<u>\$ 514.1</u>	<u>\$ 37.5</u>	<u>\$ 3.8</u>

Totals may not add due to rounding.

3. Only includes funds replacing Commonwealth funds. Fiscal year 2006 included \$212.8 million, fiscal year 2007 includes \$145 million and fiscal year 2008 includes \$137.5 million from a nursing home tax used to augment appropriated funds for long-term care. Additionally, fiscal year 2006 included \$194.5 million, fiscal year 2007 includes \$204.1 million and fiscal year 2008 includes \$183.8 million from a tax imposed on managed care organizations.

4. Includes prior year appropriation lapses from fiscal year 2005 of \$165.9 million and \$85 million from fiscal year 2006.

5. The fiscal year 2007 adjustments generally reflect the appropriation of prior year funds.

Fiscal Year 2008 Proposed Budget

A proposed fiscal year 2008 budget was submitted by the Governor to the General Assembly on February 6, 2007. The proposed budget recommends appropriations totaling \$27,274.7 million of Commonwealth funds against estimated revenues, net of tax refunds and proposed tax reductions, of \$27,242.4 million. The \$32.3 million difference between estimated revenues and recommended appropriations is to be funded by a draw down of the anticipated \$37.5 million beginning balance. Additionally, the proposed fiscal year 2008 budget allocates additional state funds of approximately \$720 million to replace significant amounts of formerly available intergovernmental transfer transaction-derived federal funds (See “MAJOR COMMONWEALTH EXPENDITURES – Public Health and Human Services”) and other formerly available federal funds. The fiscal year 2008 proposed budget represents a 3.6 percent (\$948 million) increase over the fiscal year 2007 budget. More than half of the year-over-year increase in appropriations (\$544 million) would be dedicated to increased education funding. The proposed budget reduces spending by 3.6 percent in all areas other than education, welfare, corrections and probation and parole and administrative spending is proposed to grow by less than 2 percent in fiscal year 2008.

The Governor’s proposed fiscal year 2008 budget includes proposals for significant additional reductions in local property taxes, an expansion of health care coverage within the Commonwealth, a proposal to achieve greater energy independence, and an effort to increase funding for transportation needs. The budget again proposes to securitize a portion of the Commonwealth’s Tobacco Settlement funds to fund biomedical research. The proposed budget includes an increase in the state Sales and Use tax rate from 6 percent to 7 percent while maintaining the current tax base. Proceeds of the proposed tax increase would be split to both further reduce local property taxes and to provide additional funding to the General Fund. The proposed Sales Tax increase would generate approximately \$1,246 million in the first year with \$826 million utilized to support the General Fund and \$420 million to further reduce local property taxes. By the second year, the Sales tax increase would generate \$1,400 million and the proceeds would be shared 50-50 between local property tax reduction and support for the General Fund.

A major component of the proposed fiscal year 2008 budget is the “Prescription for Pennsylvania” initiative, which would implement a plan designed to increase access to affordable health care coverage for all Pennsylvanians, improve the quality of care delivered throughout the Commonwealth and help bring health care costs under control for employers and employees. The Cover All Pennsylvanians program would offer affordable basic health insurance to small businesses and uninsured individuals. A total of \$302 million in state and federal funds is proposed to support the Cover All Pennsylvanians program. The program would also include enrollee and small employer cost-sharing and a new 3 percent Fair Share Assessment levied on payrolls of businesses that do not offer health care coverage to their employees.

A new Energy Independence Initiative is proposed that would provide \$850 million in additional investment in new, clean and alternative energy projects. The Energy Independence Fund would support early stage financing and project financing, along with new incentives for energy conservation and solar energy. A new Systems Benefit Charge of 1/20th cent per kilowatt-hour of electricity consumption would be imposed to support the Energy Independence Fund. Through this charge, approximately \$75 million would be generated annually, which would support the issuance of \$850 million of debt to be issued by the Pennsylvania Energy Development Authority. Programs which are proposed to be funded from the Energy Independence Fund include: Clean Energy Greenhouse (\$56 million), which would assist in converting clean energy research and development into commercial products; the Clean Energy Venture Capital program (\$50 million), which will make early stage investments in clean energy concepts of emerging companies; the Clean Energy Loans and Grants program (\$300 million) would provide loans and grants to stimulate the development of innovative clean energy projects and companies; the Energy Site Preparation program (\$150 million) would stimulate the development of highly efficient advanced energy business sites for clean energy companies by offering grants and low-interest financing to prepare sites and infrastructure; the Energy Capital Assistance program (\$50 million) would provide grant funding for the acquisition, construction and improvement of regional energy projects; the Air Conditioner/Refrigerator Swap program (\$44 million) would provide rebates to Pennsylvania retailers so that residential and small business consumers can replace

inefficient air conditioners and refrigerators with high efficiency units; and the Sunshine program (\$200 million) which would jump start investment in solar energy within Pennsylvania.

A recently released study performed by the Pennsylvania Transportation Reform Commission determined that an additional \$1,600 million in annual investments is required to stabilize public transportation systems and to improve roads and bridges in the Commonwealth. The fiscal year 2008 budget proposes two new initiatives to implement the recommendations of the Transportation Reform Commission. First, a Public-Private-Partnership to lease the Pennsylvania Turnpike to a private operator is proposed. All funding generated from the potential lease of the Pennsylvania Turnpike (\$965 million) would be dedicated to the Commonwealth's Motor License Fund and would be utilized to repair additional existing structurally deficient bridges and to expand the miles of state roads repaired and resurfaced. Second, a new state tax would be imposed on all oil company gross profits and the proceeds (\$760 million) would be utilized to improve mass transportation across the Commonwealth. The tax rate would be set at 6.17 percent and oil companies would be exempt from the existing Corporate Net Income tax.

As part of his fiscal year 2008 budget proposal, the Governor has again proposed a major program revision to the Commonwealth's Health Investment Plan, a series of health-related programs funded entirely from Tobacco MSA revenues. Currently, 100 percent of Tobacco MSA payments received are utilized for health care related expenditures and revenues received are statutorily distributed based upon enacted funding formula. The Commonwealth's health research component currently receives 19 percent of annual Tobacco MSA funds and these funds are annually expended on health-related research projects undertaken by Pennsylvania-based researchers. The Governor's fiscal year 2007 budget proposes to create the Jonas Salk Legacy Fund, which would utilize half of the 19 percent (9.5 percent) of Tobacco MSA payments currently dedicated to health research activities to accelerate funding for bioscience research in Pennsylvania. Under this proposal, 9.5 percent of Tobacco MSA payments would be securitized through the issuance of approximately \$500 million in bonds, the proceeds of which would be used to accelerate the construction of bioscience facilities, including laboratories, incubators and research parks. The proposed debt would be issued over a two-year period following approval by the General Assembly. Programs funded with this debt from the Jonas Salk Legacy Fund would require a dollar-for-dollar private match, thereby increasing total investment in biosciences research and facility construction to over \$1 billion. The proposed debt would be secured by and paid solely from a pledge of 9.5 percent of the revenue from the Tobacco MSA.

In February 2007, the Pennsylvania General Assembly began appropriations committee hearings for the fiscal year 2008 budget. Further legislative debate is anticipated before both houses adopt the General Appropriation Bill.

The General Assembly may change, eliminate or add amounts and items to the proposed budget submitted by the Governor, and there can be no assurance that the budget, as proposed by the Governor, will be enacted into law by June 30. In the event that the General Assembly fails to pass or the Governor fails to sign an appropriation act prior to July 1 of any fiscal year for that fiscal year, the Pennsylvania Constitution, the laws of Pennsylvania and certain state and federal court decisions provide that the Commonwealth may continue during such periods of an un-budgeted fiscal year to make debt service payments, payments for mandated federal programs such as cash assistance and payments related to the health and safety of the citizens of the Commonwealth such as police and correctional services. Failure, however, of the Governor and the General Assembly to reach agreement on the budget could have adverse effects on the Commonwealth, including, among others, the collection of revenue and completion of the annual audit. See Appendix C for additional information on the budget.

Motor License Fund

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

discussions on the Motor License Fund. The Motor License Fund budgetary basis includes only unrestricted revenue available for annual appropriation for highway and bridge purposes. The GAAP basis presentations include restricted account revenues and expenditures.

Financial Results for Recent Fiscal Periods (GAAP Basis)

The fund balance at June 30, 2006, was \$1,549.1 million, a \$272.6 million increase from the June 30, 2005 fund balance, which represents a 21.4 percent increase. Over the five fiscal years of 2002 through 2006, revenues and other sources have averaged an annual 2.9 percent increase. Expenditures and other uses during the period from fiscal years 2002 through 2006 have averaged a 1.1 percent annual increase. Revenues grew \$411 million from fiscal 2005 to fiscal 2006. During fiscal year 2006, the fund reported total tax revenues of \$2,033 million and license and fee revenues of \$899 million, which represented growth of 10.2 percent and 1.1 percent respectively from fiscal year 2005 to fiscal year 2006. Reported federal revenues, received principally from the Federal Highway Administration, totaled \$1,413 million, an increase of 16.5 percent. Other revenues to the fund, principally earnings on investments, totaled \$185 million, an increase of 8 percent from the prior fiscal year. Expenditures from the fund were \$4,211 million during fiscal year 2006, an increase of \$347 million over fiscal year 2005 expenditure levels. The increase in capital outlay during the 2006 fiscal year was responsible for the majority of the increase in reported transportation expenditures. Table 9 sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the Motor License Fund for the fiscal years 2002 through 2006.

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

	Fiscal Year Ended June 30				
	2002^(a)	2003	2004	2005	2006
Fund Balance — Beginning of Period	\$ 751,961	\$ 712,427	\$ 893,133	\$ 1,079,617	\$ 1,276,525
Revenues:					
Taxes.....	\$ 1,694,421	\$ 1,705,082	\$ 1,742,332	\$ 1,844,670	\$ 2,033,227
Licenses and fees.....	838,525	842,466	866,552	889,984	899,690
Intergovernmental.....	1,402,468	1,379,786	1,323,005	1,213,487	1,413,434
Other revenues.....	94,273	124,866	176,910	171,839	185,611
Other Financing Sources:					
Operating transfers in.....	3,937	-	-	-	-
Other additions.....	1,339	805	-	562	-
TOTAL REVENUES AND OTHER SOURCES.....	\$ 4,034,963	\$ 4,053,005	\$ 4,108,799	\$ 4,120,542	\$ 4,531,962
Expenditures: (b)					
Direction and supportive services.....	\$ 48,579	\$ 48,400	\$ 49,693	\$ 50,338	\$ 51,738
Protection of persons and property.....	492,504	514,100	496,105	509,999	553,679
Public education.....	1,075	1,068	1,023	1,058	1,024
Recreation and cultural enrichment.....	1,927	3,504	4,199	3,437	-
Transportation.....	3,369,240	3,205,830	1,641,755	1,826,539	1,679,517
Capital outlay.....	46,416	39,154	1,668,261	1,472,434	1,924,821
Other Uses:					
Operating transfers out.....	86,756	60,243	61,279	59,829	48,630
Transfers to component units.....	28,000	-	-	-	-
TOTAL EXPENDITURES AND OTHER USES	\$ 4,074,497	\$ 3,872,299	\$ 3,922,315	\$ 3,923,634	\$ 4,259,409
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES.....	(39,534)	180,706	186,484	196,908	272,553
Residual Equity Transfers In (Out).....	-	-	-	-	-
Fund Balance — End of Period	\$ 712,427	\$ 893,133	\$ 1,079,617	\$ 1,276,525	\$ 1,549,078
Components of Fund Balance					
Reserved for encumbrances.....	\$ 389,942	\$ 456,015	\$ 591,598	\$ 601,809	\$ 464,511
Reserved for advances and other.....	-	-	220,662	110,000	1,635
Unreserved - designated - highways.....	175,249	215,946	209,647	218,885	203,118
Unreserved - undesignated.....	147,236	221,172	57,710	345,831	879,814
TOTAL FUND BALANCE.....	\$ 712,427	\$ 893,133	\$ 1,079,617	\$ 1,276,525	\$ 1,549,078

(a) For the fiscal year ended June 30, 2002 and subsequent fiscal years, the Commonwealth has adopted several new accounting and reporting standards described earlier in "COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES – New Governmental Accounting and Reporting Standards." The new standards require numerous changes to how fund financial statements are presented. Certain funds have been reclassified and fund balances restated. See Note B to the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002 for a more detailed explanation. These changes limit the comparability of that year's data and subsequent data to data for prior fiscal years.

(b) Beginning with the fiscal year ended June 30, 2002, the functional categories of expenditures have been revised. Additionally, beginning with the fiscal year ended June 30, 2004, a portion of the functional categories within expenditures (transportation and capital outlay) have been further revised. These changes limit the comparability of fiscal years' 2002 through 2006 data to data for prior fiscal years.

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2002 through 2006.

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

Fiscal Year 2005 Financial Results

The Motor License Fund ended the fiscal year with an unappropriated surplus of \$212.4 million, a net increase of \$98.8 million or 87 percent from fiscal year 2004. Motor License Fund revenues totaled \$2,156.8

million, an increase of 3.4 percent over actual fiscal year 2004 receipts. Revenues from other revenue receipts, primarily earnings on investments, grew 86.7 percent during fiscal year 2004, while receipts from license and fees increased by 4.0 percent over fiscal year 2004 receipts. Revenues to the Motor License Fund from liquid fuels taxes increased by 4.2 percent during fiscal year 2005. Expenditures of Commonwealth Motor License Fund revenues totaled \$2,071.2 million for fiscal year 2005, an increase of 2.4 percent from actual fiscal year 2004 expenditures net of lapses.

Fiscal Year 2006 Financial Results

During fiscal year 2006, revenues excluding prior year lapses, of the Motor License Fund were \$2,265.8 million, an increase of 5.1 percent over actual fiscal year 2005 receipts. Liquid fuels tax receipts increased by 5.7 percent while license and fee revenues grew minimally (0.1% growth). Other revenue receipts, including earnings on investments, increased by 34.9%. Appropriations and executive authorizations from Commonwealth funds for fiscal year 2006 totaled \$2,340.6 million, an increase of 13 percent. The Motor License Fund ended the fiscal year with an unappropriated surplus of \$283.7 million, a net increase of \$71.3 million.

Fiscal Year 2007 Budget

The fiscal year 2007 budget for the Motor License Fund estimates revenues of \$2,293.9 million, an increase of 1.2 percent over actual fiscal year 2006 receipts. The fiscal year 2007 Motor License Fund budget provides \$2,564.5 million of appropriations and executive authorizations from Commonwealth funds for fiscal year 2007. The budgeted appropriations and authorizations represents an increase of 9.6 percent above the amount expended during fiscal year 2006. The enacted budget anticipates a draw down of approximately \$212.6 million from the fiscal year 2007 beginning balance.

Through April 2007, Commonwealth revenues in the Motor License Fund are slightly below estimate by 1.2 percent versus the certified revenue estimate for the same year-to-date period.

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

Fiscal Year 2008 Proposed Budget

A budget proposing \$2,352.1 million of appropriations from Commonwealth Motor License Fund revenues for fiscal year 2008 has been submitted to the General Assembly. The requested amount of appropriations represents a decrease of 8.3 percent below the appropriated level for fiscal year 2007 and approximates the draw down of a portion of the fiscal year 2007 beginning balance. The budget proposed for fiscal year 2008 includes \$965.0 million in additional proposed revenues to the Motor License Fund, which would be generated from a proposed Public-Private-Partnership to lease the Pennsylvania Turnpike to a private operator. All funding generated from the potential lease of the Pennsylvania Turnpike would be utilized to repair additional existing structurally deficient bridges and to expand the miles of state roads repaired and resurfaced. The proposed budget for fiscal year 2008 projects a further draw down of approximately \$49.1 million from the estimated fiscal year beginning balance.

The General Assembly is considering the Governor's budget proposal through hearings and debate on various bills, including the General Appropriation Bill, required to enact the proposed budget. The General Assembly may change, eliminate or add amounts and items to the proposed budget submitted by the Governor and there can be no assurance that the budget, as proposed by the Governor, will be enacted into law by June 30. See Appendix C for additional information on the budget.

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

Financial Results for Recent Fiscal Periods (GAAP Basis)

State Lottery Fund cash and investments increased by \$93 million or 17 percent during the fiscal year ended June 30, 2006, due to an increase in gross ticket sales. Total revenue increased \$410 million or 15 percent, primarily due to an increase in Powerball/Powerplay sales, an increase in instant ticket sales and the introduction of a new Raffle game during the fiscal year. Expenditures and other uses from the State Lottery Fund increased \$401 million or 15 percent during the fiscal year, partly due to increased field paid prizes from instant ticket sales, advertising and special services. The fiscal year 2006 statutory transfer from the State Lottery Fund for the payment of benefits to the elderly that the fund subsidizes amounted to \$380 million, an increase of \$80 million over fiscal year 2005. Table 10, on the following page, sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the State Lottery Fund for fiscal years 2002 through 2006.

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

Fiscal Year 2005 Financial Results

Revenues from tickets sales of the Lottery and other miscellaneous revenue sources rose 3.5 percent during fiscal year 2005, totaling \$1,211.9 million. Expenditures net of lapses, totaled \$1,139 million, an amount equal to the expenditure levels experienced in fiscal year 2004. Revenues, including prior year lapses, in excess of expenditures for fiscal year 2005 contributed to an unappropriated fund balance and reserve of \$381.0 million (including \$100 million of reserves), an increase of 27 percent from fiscal year 2004.

Fiscal Year 2006 Financial Results

During fiscal year 2006, ticket sales less field prizes and commissions were \$1,459.5 million, a 20.4 percent increase in revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game. Expenditures, net of projected lapses totaled \$1,437.7.1 million, were 26.2 percent above fiscal year 2005 expenditures. The fiscal year-end unappropriated balance and reserve totaled \$439.0 million (including \$100 million of reserves), an increase of 15.2 percent.

Fiscal Year 2007 Budget

The fiscal year 2007 budget anticipates an 11.9 percent increase in revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game. Total revenues estimated to be received by the Lottery fund during fiscal year 2007 are \$1,633.4 million while total appropriations of \$1,433.7 million are budgeted. The expansion of the federal Medicare program to cover prescription drugs is expected to save the Commonwealth's Lottery Fund approximately \$185 million annually. The Commonwealth's prescription drug coverage program is also expanded to cover an additional 120,000 seniors within the next 18 months by building upon the federal Medicare Part D program. Additionally, the fiscal year 2007 budget includes a transfer of approximately \$248.8 million in long-term care costs from the Commonwealth's General Fund to the State Lottery Fund. The anticipated fiscal year-end balance and reserve is projected to total \$720.7 million, (including \$100 million of reserves), an increase of 64.2 percent.

The achievement of the budgeted results may be adversely affected by a number of factors, including failure of the marketing and game strategies to achieve the projected rise in revenues and increased competition from other forms of gaming that may be available to Pennsylvania lottery players.

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

	Fiscal Year Ended June 30				
	2002(a)	2003	2004	2005	2006
Net Assets -					
Beginning of Period	\$ 201,215	\$ 180,921	\$ 142,372	\$ 158,426	\$ 291,416
Restatements.....	173	-	-	-	-
Net Assets -					
Beginning of Period, as Restated.....	\$ 201,388	\$ 180,921	\$ 142,372	\$ 158,426	\$ 291,416
Revenues:					
Lottery revenues.....	1,932,692	2,100,096	2,350,892	2,645,713	3,046,854
Investment income.....	23,042	15,139	13,127	17,282	25,360
Other revenues.....	65,474	68,522	73,681	68,412	78,331
TOTAL REVENUES AND OTHER SOURCES.....	\$ 2,021,208	\$ 2,183,757	\$ 2,437,700	\$ 2,731,407	\$ 3,150,545
Expenditures:					
Operating expenses (b).....	\$ 1,682,675	\$ 1,827,306	\$ 2,051,646	\$ 2,298,417	\$ 2,704,265
Other Uses:					
Operating transfers out.....	359,000	395,000	370,000	300,000	380,000
TOTAL EXPENDITURES AND OTHER USES	\$ 2,041,675	\$ 2,222,306	\$ 2,421,646	\$ 2,598,417	\$ 3,084,265
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURE AND OTHER USES.....	(20,467)	(38,549)	16,054	132,990	66,280
Net Assets - End of Period.....	\$ 180,921	\$ 142,372	\$ 158,426	\$ 291,416	\$ 357,696
Components of Net Assets					
Invested in capital assets, net of debt.....	\$ 107	\$ 88	\$ 83	\$ 87	\$ 31,771
Restricted for elderly programs.....	180,814	142,284	158,343	291,329	325,925
TOTAL NET ASSETS.....	\$ 180,921	\$ 142,372	\$ 158,426	\$ 291,416	\$ 357,696

- (a) For the fiscal year ended June 30, 2002 and subsequent fiscal years, the Commonwealth has adopted several new accounting and reporting standards described earlier in "COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES – New Governmental Accounting and Reporting Standards." The new standards require numerous changes to how fund financial statements are presented. The State Lottery Fund has been reclassified from the governmental fund category to the proprietary fund category. The change in fund category also produced a change in basis of accounting and required a restatement of beginning fund balance/net assets for the fund at June 30, 2001. See Note B to the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002 for a more detailed explanation. These changes limit comparability of fiscal year 2002 through 2006 data to data reported for prior fiscal years.
- (b) The reclassification of the State Lottery Fund to the proprietary fund category caused a change in reporting of all expenditures as operating expenses.

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2002 through 2006.

Fiscal Year 2008 Proposed Budget

The Governor's proposed fiscal year 2008 budget anticipates a 2.4 percent increase in revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game. Appropriations totaling \$1,821.1 million are recommended, which represents an increase of \$387.4 million or 27.0 percent over fiscal year 2007. The existing Property Tax and Rent Rebate program has been expanded to include an additional 422,000 senior citizens and appropriations for this program are proposed to rise from \$130.0 million in fiscal year 2007 to \$324.9 million in fiscal year 2008. The fiscal year 2007 budget also expanded the Commonwealth's prescription drug coverage program to cover an additional 120,000 seniors and an additional \$74.4 million is proposed as part of the fiscal year 2008 budget for this expansion and to cover the increasing cost of prescription drugs. Additionally, the Governor's proposed fiscal year 2008 budget includes a transfer of approximately \$248.8 million in long-term care costs from the Commonwealth's General Fund to the State Lottery

Fund. The proposed fiscal year-end balance and reserve is projected to total \$572.7 million, a decrease of 20.5 percent.

Trend projections for fiscal years beyond fiscal year 2008 show estimated program and administrative costs above estimated net revenues as the forecasted rate of increase in program expenditures, namely the pharmaceutical assistance program, is expected to outpace revenues. The estimated expenditures in excess of estimated revenues will be funded from a further draw-down of available reserves and balances in the State Lottery Fund. Based upon current projections, higher revenues and/or lower expenditures will be required for the State Lottery Fund to balance operations within a fiscal year.

The General Assembly is considering the Governor's budget proposal through hearings and debate on various bills, including the General Appropriation Bill, required to enact the proposed budget. The General Assembly may change, eliminate or add amounts and items to the proposed budget submitted by the Governor and there can be no assurance that the budget, as proposed by the Governor, will be enacted into law by June 30. See Appendix C for additional information on the budget.

COMMONWEALTH REVENUES AND EXPENDITURES

Recent Receipts and Forecasts

Table 11, on the following, 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 2001 through 2006 and as re-estimated for the fiscal year 2007 budget.

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Table 11
Commonwealth Revenues ^(a)
General Fund, Motor License Fund and State Lottery Fund - Unaudited
Fiscal Year 2001 – Fiscal Year 2006 and Fiscal Year 2007 Budget
(In Millions)
Fiscal Year Ended June 30

	2001	2002	2003	2004	2005	2006	Estimate 2007
General Fund							
Tax Revenues:							
Sales and use	\$ 7,203.8	\$ 7,292.5	\$ 7,519.6	\$ 7,728.5	\$ 8,000.0	\$ 8,334.2	\$ 8,545.7
Personal income	7,491.5	7,138.7	7,105.9	7,733.8	8,746.8	9,524.1	10,030.0
Corporate (b).....	2,666.4	2,331.9	2,292.9	2,661.7	2,947.3	3,382.8	3,400.5
Public utility (c).....	705.8	739.4	897.6	1,062.7	1,167.1	1,191.2	1,259.5
Inheritance	799.8	779.6	693.8	747.6	716.1	745.2	738.2
Financial and insurance (d)	481.3	516.9	545.0	608.3	619.6	595.0	607.7
Cigarette	269.3	266.8	826.7	856.4	784.4	792.1	778.0
Realty transfer	268.8	290.5	362.6	400.6	472.5	552.5	571.7
Alcoholic beverages (e)	187.6	197.4	219.9	221.4	237.4	249.2	267.0
Other	16.6	19.9	33.2	25.0	21.3	3.7	25.0
TOTAL TAX REVENUES	\$ 20,090.9	\$ 19,573.6	\$ 20,497.2	\$ 22,046.0	\$ 23,712.5	\$ 25,370.0	\$ 26,223.3
Non-Tax Revenues:							
Liquor store profits	\$ 50.0	\$ 120.0	\$ 155.0	\$ 50.0	\$ 54.9	\$ 80.0	\$ 150.0
Licenses, fees and miscellaneous.....	387.7	333.4	627.4	696.9	509.1	368.6	453.7
Fines, penalties and interest	33.1	32.6	34.9	35.1	32.0	35.5	39.2
TOTAL NON-TAX REVENUES	\$ 470.8	\$ 486.0	\$ 817.3	\$ 782.0	\$ 596.0	\$ 484.1	\$ 642.9
TOTAL GENERAL FUND	\$ 20,561.7	\$ 20,059.6	\$ 21,314.5	\$ 22,828.0	\$ 24,308.5	\$ 25,854.1	\$ 26,866.2
Motor License Fund							
Tax Revenues:							
Liquid fuels	\$ 567.8	\$ 578.5	\$ 579.4	\$ 587.1	\$ 588.4	\$ 581.8	\$ 590.8
Fuels use	146.2	148.4	148.8	155.0	157.4	162.4	165.2
Oil company franchise	324.5	337.3	343.1	342.4	381.3	445.2	472.5
Motorbus & alt fuels.....	31.7	26.4	34.2	28.6	32.7	36.6	37.9
TOTAL TAX REVENUES	\$ 1,070.2	\$ 1,090.6	\$ 1,105.5	\$ 1,113.1	\$ 1,159.8	\$ 1,226.0	\$ 1,266.4
Non-Tax Revenues:							
Licenses and fees	\$ 795.4	\$ 814.4	\$ 828.8	\$ 843.2	\$ 876.9	\$ 877.8	\$ 882.7
Other and miscellaneous.....	86.3	50.2	64.5	129.4	120.1	162.0	144.8
TOTAL NON-TAX REVENUES	\$ 881.7	\$ 864.6	\$ 893.3	\$ 972.6	\$ 997.0	\$ 1,039.8	\$ 1,027.5
TOTAL MOTOR LICENSE FUND	\$ 1,951.9	\$ 1,955.2	\$ 1,998.8	\$ 2,085.7	\$ 2,156.8	\$ 2,265.8	\$ 2,293.9
State Lottery Fund							
Non-Tax Revenues:							
Lottery revenues	\$ 916.1	\$ 989.6	\$ 1,057.0	\$ 1,152.2	\$ 1,194.0	\$ 1,430.1	\$ 1,493.9
Other and miscellaneous	11.7	12.9	9.8	18.3	17.9	29.5	139.1
TOTAL NON-TAX REVENUES	\$ 927.8	\$ 1,002.5	\$ 1,066.8	\$ 1,170.5	\$ 1,211.9	\$ 1,459.6	\$ 1,633.0
TOTAL STATE LOTTERY FUND	\$ 927.8	\$ 1,002.5	\$ 1,066.8	\$ 1,170.5	\$ 1,211.9	\$ 1,459.6	\$ 1,633.0

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 taxes.
- (d) Includes the financial institution and insurance premium taxes.
- (e) Includes the liquor and malt beverage taxes.

Table 12, on the following page, presents a comparison of the actual revenues on a budgetary basis to the official revenue estimate used for budget enactment for the General Fund and the Motor License Fund for fiscal years 2002 through 2006.

Table 12
Commonwealth Revenues — Official Estimate vs. Actual^(a)
General Fund and Motor License Fund – Unaudited
Fiscal Year 2002 — Fiscal Year 2006
(In Millions)

Fiscal Year Ended June 30	General Fund			Motor License Fund		
	Official Estimate^(b)	Actual	Variance	Official Estimate^(b)	Actual	Variance
2002.....	21,328.3	20,059.6	-1,268.7	1,955.8	1,951.1	-0.6
2003.....	21,812.1	21,314.5	-497.6	2,029.3	1,998.8	-30.5
2004.....	22,191.3	22,828.0	636.7	2,026.3	2,085.6	59.3
2005.....	23,866.5	24,308.5	442.0	2,101.9	2,156.9	55.0
2006.....	24,989.9	25,854.3	864.4	2,229.2	2,266.6	36.7

Source: Office of the Budget.

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

^(b) As certified for budget enactment.

Tax Revenues

Tax revenues constitute approximately 98 percent of Commonwealth revenues in the General Fund. The major tax sources for the General Fund of the Commonwealth are the personal income tax, the sales tax, the corporate net income tax, and the capital stock and franchise tax. Together these four taxes produce over 81 percent of General Fund tax revenues.

The major tax sources for the Motor License Fund are the liquid fuels taxes and the oil company franchise tax. Together these taxes produce nearly 54 percent of Motor License Fund revenues. Portions of certain taxes whose receipts are deposited into the Motor License Fund are legislatively restricted to specific transportation programs. These receipts are accounted for in restricted accounts in the Motor License Fund and are not included in the discussions of the tax revenues of the Motor License Fund.

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

Personal Income Tax. This tax accounted for \$9,524.1 million or 36.8 percent of fiscal year 2006 General Fund Commonwealth revenues. The tax is levied at a flat rate on the taxable income of all residents and resident trusts and estates and taxable income attributable to Pennsylvania non-resident estates and trusts. The current tax rate of 3.07 percent became effective on January 1, 2004. Credit against the tax is allowed for gross or net income taxes paid to other states by Pennsylvania residents.

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

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

Sales Tax. This tax accounted for \$8,334.2 million or 32.2 percent of fiscal year 2006 General Fund Commonwealth revenues. The tax is levied at a rate of 6 percent on the sale, use, storage, rental or consumption of tangible personal property, cigarettes, and certain services, and upon the occupancy of hotel rooms. Substantial exemptions from the tax include clothing, food purchased in grocery stores or supermarkets, medical supplies, drugs, residential use of certain utilities, motor fuels, and machinery, equipment and items used in manufacturing,

processing, farming or dairying, and utility service. The tax base was expanded in fiscal year 1992 to include a number of services not previously taxed. Beginning in fiscal year 1998, 1.22 percent of collections, up to an annual limit of \$75 million, are transferred to a special fund for mass transit assistance. Beginning in fiscal year 2004, an additional 0.417 percent of receipts are transferred for transit assistance purposes.

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

Corporate Net Income Tax. The Commonwealth received \$2,301.9 million, or 8.9 percent of fiscal year 2006 General Fund Commonwealth revenues, from this tax. The tax is paid by all domestic and foreign corporations for the privilege of doing business, carrying on activities, or employing capital or property in Pennsylvania and is levied on federal net taxable income with Pennsylvania modifications. Building and loan associations, banks, savings institutions, trust companies, insurance and surety companies, Pennsylvania S corporations and non-profit corporations are exempt from the tax. When less than the entire business of any corporation is transacted within the Commonwealth, the taxable income in Pennsylvania is determined by an apportionment formula.

The current tax rate of 9.99 percent became effective for fiscal years beginning on or after January 1, 1995. The previous tax rate of 11.99 percent had been in effect since January 1, 1994.

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

Utility Gross Receipts Tax. This tax accounted for \$1,150.9 million, or 4.5 percent of fiscal year 2006 General Fund Commonwealth revenues. The tax is levied on the gross receipts from business transacted within Pennsylvania by specified public utilities owned, operated or leased by corporations, associations or individuals. Public utilities owned or operated by a municipality or a municipal authority furnishing public utility services within the limits of the municipality are exempt from paying tax on the receipts arising from business done within the municipality. Beginning January 1, 2004, interstate and cellular telecommunications services are subject to the gross receipts tax. The tax rate is 50 mills, which became effective in July 1991, having been raised from its prior tax rate of 44 mills for all utilities except electric utilities, which are taxed at the rate of 44 mills. The tax rate for electric utilities is adjusted annually under provisions of a formula enacted with the deregulation of electric generation in Pennsylvania. Beginning with fiscal year 1999, 0.18 percent of receipts are transferred to a special fund for mass transit purposes. Revenue from 0.2 mills of the tax is deposited in the Alternative Fuels Incentive Grant Fund.

All firms, except public utilities owned or operated by a municipality or a municipal authority and motor transportation companies, are required to file estimated revenue reports annually, together with the tentative payment of the current year's tax calculated by applying the current tax rate to 90 percent of the tax base for the preceding year. Effective for tax years after January 1, 2000, natural gas companies became exempt from the tax. The tax report and tentative payment are required to be made by March 15. The remaining tax is due and payable by the succeeding March 15.

Capital Stock and Franchise Taxes. These taxes generated \$1,080.9 million for the Commonwealth in fiscal year 2006, or 4.2 percent of General Fund Commonwealth revenues. They are levied on the capital stock value of domestic and foreign corporations doing business or having property or capital employed in Pennsylvania on that portion of capital stock value apportionable to Pennsylvania under a statutory formula.

Capital stock and franchise tax tentative payments are payable quarterly based on 90 percent of the tax liability of the year preceding the immediate prior year. Under current law, the General Fund tax rate for tax years that began in 2006 is 4.89 mills, having been reduced from 5.99 mills effective January 1, 2006. This tax is scheduled to be phased out by annual rate reductions through 2010 under legislation enacted in 2002 and amended in 2003 and 2006.

Cigarette Tax. Collections of this tax totaled \$792.1 million in fiscal year 2006, or 3.1 percent of General Fund Commonwealth revenues. The tax is imposed and assessed on the sale or possession of cigarettes within the

Commonwealth. It is levied on the consumer but is collected by the sale of stamps and meter units to dealers who affix them to each package. The current rate is \$1.35 per package of 20 cigarettes, which was increased by 31 cents in 2002 and further increased by 35 cents effective in 2004. The 6 percent sales tax is also imposed on the retail sale of cigarettes. A portion of the collections from the tax are transferred to a special fund for children's health insurance and to a special fund for preserving farmland. Additionally, an amount approximately equal to 25 cents per pack is transferred to the Healthcare Provider Retention Account.

Inheritance and Estate Taxes. Collections of these taxes were \$745.2 million in fiscal year 2006, or 2.9 percent of General Fund Commonwealth revenues. The inheritance tax is levied on the value of property transferred to heirs of a deceased person. Prior to July 1, 2000, the tax rate was 6 percent of the value, if passing to lineal heirs, and 15 percent if passing to collateral heirs. Effective July 1, 2000, the tax rate on transfers to parents, grandparents and lineal descendants was lowered to 4.5 percent and a new tax rate of 12 percent on transfers to siblings was established. The estate tax is a "pick-up" tax in the amount of the maximum federal tax credit less State death taxes paid. Counties collect the inheritance and estate tax, which is due within nine months following the death of the person whose property is being transferred.

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

A 90 percent tentative payment is required for insurance companies, except foreign fire and casualty companies, calculated on the tax base of the preceding tax year. As an alternative, the taxpayer may elect to make a tentative payment in an amount not less than 90 percent of the tax as finally reported. Payments must be submitted by March 15 of each year, while the remaining amount due must be paid by April 15 of the following year.

Realty Transfer Tax. This tax is levied at the rate of 1 percent of the value of the real property transferred, as represented by deed, instrument or other writing. The tax is collected by the recorders of deeds in the counties and transmitted to the Commonwealth when collected. From July 1994 through December 2001, fifteen percent of the revenues from this tax was transferred to the Keystone Recreation, Park and Conservation Fund, and the remaining portion was deposited in the General Fund. For the period from January 2002 through June 2002, the transfer amount was reduced to 10 percent; from July 2002 to June 2003, the transfer was reduced to seven and one-half percent. Effective July 2003, the transfer is fifteen percent. The fiscal year 2007 enacted budget includes a one-year suspension of the fifteen percent transfer to the Keystone Recreation, Park and Conservation Fund.

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

Financial Institution Taxes. The bank shares tax is levied at the rate of 1.25 percent of the value of shares of state and national banks and title insurance companies. Each institution computes the tax base by averaging the share value, adjusted to exclude the value of United States obligations, for each quarter of the previous calendar year. A payment of the tax for the current tax year is due by March 15 of that year. Revenues of this tax are deposited into the General Fund.

The mutual thrift institutions tax is levied on the taxable net income of such institutions at the rate of 11.5 percent. Revenues of this tax accrue to the General Fund. Annually, the mutual thrift institutions are required to transmit tentative reports together with a tentative payment of the current year's tax computed by applying the current tax rate to 90 percent of the tax base for the second preceding tax year. The taxpayer may elect to make a tentative payment at an amount not less than 90 percent of the tax as finally reported. Tentative reports and

prepayments are due by March 15 of the current calendar year, with the remaining amount payable by April 15 of the next year.

Public Utility Realty Tax. The tax is levied on the state taxable value of utility real property belonging to a firm or other entity (i) furnishing utility service and (ii) regulated by the Pennsylvania Public Utility Commission or similar regulatory body. State taxable value is the current market value derived from assessed values for county real estate tax purposes. Certain items are specifically exempt from the tax. The tax rate for the General Fund portion of the tax is set annually by the Secretary of Revenue. The tax rate is to be set at a rate intended to produce revenues sufficient to reimburse local taxing authorities for foregone property tax revenues. Revenues from an additional 7.6 mill tax are deposited into a special revenue fund.

The tax is subject to a tentative payment of the then current year's tax liability. The tentative reports and tax payments are due in May. The remaining tax payments must be paid in September.

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

Liquid Fuels Tax. This tax accounted for \$581.8 million, or 25.7 percent of Motor License Fund Commonwealth revenues in fiscal year 2006. It is an excise tax imposed upon all liquid fuels used or sold within the Commonwealth. The tax is imposed upon and collected by the fuel distributor. After discounts, all monies collected are deposited in the Motor License Fund, except that an amount equal to one-half cent per gallon is deposited in the Liquid Fuels Tax Fund. Fuels sold and delivered to the U.S. government, the Commonwealth and any of its political subdivisions, public authorities, non-profit schools, volunteer fire companies, ambulance services, rescue squads, and fuels sold and delivered in interstate commerce are exempt from payment of the tax. In addition to these exemptions, reimbursement is made for fuels used for certain agricultural purposes. The present rate of the liquid fuels tax is 12 cents per gallon.

Oil Company Franchise Tax. This tax accounted for \$445.2 million, or 19.6 percent of fiscal year 2006 Motor License Fund Commonwealth revenues. The tax is levied on the privilege of selling petroleum products subject to liquid fuels taxes (primarily gasoline) for transportation purposes at the rate of 153.5 mills upon each dollar of such revenues. The tax rate was increased by 38.5 mills in May 1997 to its current rate. By law, portions of the tax are dedicated to certain highway purposes, including transfers to local governments for roads and highways. Exemptions from the tax are the same as those provided from the liquid fuels tax.

Fuels Tax. This tax accounted for \$162.4 million, or 7.2 percent of fiscal year 2006 Motor License Fund Commonwealth revenues. It is an excise tax imposed on fuels (primarily diesel fuel) used or sold within the Commonwealth. The tax is imposed upon and collected by the distributor. After discounts, all monies collected are deposited in the Motor License Fund, except an amount equal to one-half cent per gallon placed in the Liquid Fuels Tax Fund for distribution to local governments. The present tax rate is 12 cents per gallon for fuel used in the Commonwealth.

Fuels exempt from this tax are those delivered in interstate commerce, those used by and sold to the Commonwealth and any of its political subdivisions, those sold and delivered to the U.S. government, those (less than 50 gallons) brought into the Commonwealth in the fuel tanks of motor vehicles, those used by public authorities, volunteer fire companies, ambulance services, rescue squads and non-profit schools, and those used for certain agricultural purposes.

Motor Carriers Road Tax. This tax is levied on motor carrier vehicles having a gross weight in excess of 26,000 pounds. All monies collected are deposited in the Motor License Fund. The current rate is 12 cents per gallon, plus an additional factor based on the oil company franchise tax for fuel used within the Commonwealth. In May 1997, the tax rate was reduced by 6 cents to its current level. The revenue lost from the tax reduction is being covered by an additional 55 mills tax rate for the oil company franchise tax. Both the repealed and the new tax portions are dedicated to bridge improvement.

Non-Tax Revenues

Licenses and Fees. License and fee receipts in the General Fund for fiscal year 2006 totaled \$115.8 million, representing 0.4 percent of Commonwealth revenues to the General Fund. A general increase in various General Fund fees was enacted in December 2003 and effective beginning in January 2004. Revenues from motor vehicle licenses and fees in fiscal 2004 were \$877.89 million, representing 38.7 percent of total fiscal year 2006 Motor License Fund Commonwealth revenues. A general increase in various fees and licenses was enacted in April 1997 and effective beginning with the 1998 fiscal year.

Miscellaneous Revenue. Revenues from non-tax sources not categorized elsewhere are credited to miscellaneous revenues. Interest earnings on securities and deposits are included in this source. Miscellaneous revenues receipts in the General Fund for fiscal year 2006 totaled \$252.8 million or 0.9% of the Commonwealth revenues to the General Fund. Receipts from miscellaneous motor vehicle revenues in fiscal 2006 were \$162.0 million, representing 7.1 percent of total fiscal year 2006 Motor License Fund Commonwealth revenues.

State Stores Fund Transfers. This is an amount determined by the Liquor Control Board to be available for transfer to the General Fund. The amount transferred for fiscal year 2006 was \$80.0 million. In Pennsylvania, the distribution and sale of liquor is a state enterprise.

Fines, Penalties and Interest. This revenue source includes all fines, penalties and interest collected in the enforcement of tax regulations. The amount deposited to the General Fund for fiscal year 2006 was \$35.5 million. The largest portion is from corporation tax penalties.

Tobacco Settlement Payments. The Commonwealth's portion of payments made by cigarette manufacturers participating in the Tobacco MSA are deposited in the Tobacco Settlement Fund to be used for certain health-related programs. See "COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES – Description of Funds."

Federal Revenues

Receipts by the Commonwealth in its General Fund, Motor License Fund, Tobacco and State Lottery Fund from the federal government during fiscal year 2006 totaled \$17.5 billion, while such federal receipts are expected to total \$17.8 billion in fiscal year 2007. Approximately \$11.4 billion, or 65.4 percent of total federal revenue to the Commonwealth for fiscal year 2006, was attributable to public health and welfare programs, the largest of which are for the Medical Assistance and Temporary Assistance to Needy Families programs. In fiscal year 2007 \$11.8 billion, or 66.1 percent of federal revenues, will be attributable to these types of programs.

For fiscal year 2008, funds expected to be received from the federal government in the General Fund, the Motor License Fund, the Tobacco Fund and the State Lottery Fund are estimated to be \$17.5 billion.

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 2006 and the enacted budget for fiscal year 2007.

Education

In fiscal year 2006, expenditures from Commonwealth revenues for education purposes were over \$10.1 billion. The enacted budget for fiscal year 2007 includes over \$10.8 billion in education funding, an increase of 7.6 percent over fiscal year 2006. The proposed budget for fiscal year 2008 includes over \$11.4 billion in education funding.

Elementary and Secondary Education. The financing of public elementary and secondary education in Pennsylvania is shared by the Commonwealth and local school districts. There are 501 local school districts in the state. With certain exceptions, each is governed by a locally elected school board responsible for the administration of the public schools in the school district with the authority to levy taxes within the limits prescribed by the Public

School Code of 1949, as amended. Funds supplied by the Commonwealth supplement the funds raised locally. Local school districts receive various subsidy payments for basic instruction, vocational education, debt service, pupil transportation, employee retirement programs including Social Security, and various special education programs from the Commonwealth. The largest such subsidy is the Basic Education Funding subsidy. The enacted budget for fiscal year 2007 increases Basic Education Funding by over \$267 million, or 5.9 percent, to over \$4.78 billion. The increase includes a base supplement based on school district enrollment and relative wealth, a small district assistance component, an enrollment growth supplement and a supplement based upon school district personal income and relative wealth and a supplement based upon enrollment and relative local taxing effort. For fiscal year 2007, every school district is guaranteed a 3.5 percent increase over its fiscal year 2006 total allocation. The recommended budget for fiscal year 2008 includes \$4.95 billion, or a \$166.67 million or 3.48 percent increase over fiscal year 2007.

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

Total Commonwealth expenditures for basic education programs in fiscal year 2006 were over \$8.1 billion, representing 80.1 percent of all Commonwealth expenditures for education in fiscal year 2006. The enacted budget for fiscal year 2007 includes over \$8.7 billion for basic education programs and the recommended budget for fiscal year 2008 includes over \$9.2 billion for basic education programs.

Table 13
Fall Enrollment in Pennsylvania Public and
Non-Public Elementary Schools and Secondary Schools
School Years 2002-2006
(In Thousands)

	School Year Ended June				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Elementary Schools					
Public	960	942	933	935	931
Nonpublic.....	236	229	220	210	203
Secondary Schools					
Public	862	875	888	893	900
Nonpublic.....	85	84	83	81	78
Total					
Public	1,822	1,817	1,821	1,828	1,831
Nonpublic.....	<u>321</u>	<u>313</u>	<u>303</u>	<u>291</u>	<u>281</u>
Total	2,143	2,130	2,124	2,119	2,112

Source: Pennsylvania Department of Education.

Philadelphia School District. The Secretary of Education of the Commonwealth, under the provisions of the Commonwealth's Public School Code (the "School Code"), declared the Philadelphia School District as distressed effective December 22, 2001. During the period of distress covered by that declaration, all powers and duties of the Philadelphia School District Board of Education granted under the School Code or any other law are

suspended and all such powers and duties are vested in a school reform commission. Currently, the school reform commission statutorily consists of five members, four appointed by the Governor and one appointed by the Mayor of the City of Philadelphia. The school reform commission's objectives are to improve the levels of academic achievement and achieve financial stability within the school district. Termination of the declaration of distress by the Secretary of Education of the Commonwealth may be made only upon the recommendation of a majority of the members of the school reform commission. Upon termination of the declaration of distress, the Philadelphia School District Board of Education will resume the exercise of its powers. The fiscal year 2006 budget included a \$25 million appropriation for the Philadelphia School District. Funding for the Philadelphia School District was formerly shown under its own appropriation. That funding is now included as part of the Basic Education Funding appropriation in the fiscal year 2007 enacted budget and the fiscal year 2008 proposed budget.

Higher Education. Higher education in Pennsylvania is provided through 271 degree-granting institutions, which include the fourteen universities of the State System of Higher Education ("SSHE"), four State-related universities, community colleges, independent colleges/universities and specialized degree-granting institutions. SSHE, created in 1982 from the fourteen state-owned colleges, is administered by a Board of Governors whose members are appointed by the Governor and confirmed by the Senate. Over \$1.90 billion was expended by the Commonwealth in the 2006 fiscal year for these institutions and for student financial assistance. The enacted budget for fiscal year 2007 includes over \$2.016 billion for higher education while the fiscal year 2008 budget proposes over \$2.03 billion for higher education.

Table 14
Full-Time Equivalent Enrollment at State-Supported
Institutions of Higher Education
School Years 2002-2006
(In Thousands)

	<u>School Year Ended June</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
State System of Higher Education	94	96	95	99	100
State-Related Universities.....	137	140	141	141	141
Community Colleges	75	81	87	88	91
State-Aided Institutions	<u>35</u>	<u>40</u>	<u>42</u>	<u>43</u>	<u>44</u>
Total.....	345	357	365	371	376

Source: Governor's Executive Budget, various years.

Public Health and Human Services

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

Fiscal year 2006 public health and human services expenditures were \$23.8 billion and are projected to be \$24.2 billion for fiscal year 2007. For fiscal year 2008, \$24.6 billion is proposed for these purposes. Of the fiscal

year 2007 expenditures, \$9.6 billion will be funded from the General Fund, while \$10.0 billion is estimated to be provided from the General Fund for fiscal year 2008. Federal funds are expected to increase by \$249.1 million, and augmentations are expected to decrease by \$125.5 million for fiscal year 2008. Public health and human service programs are the largest single component of combined state and federal spending in the Commonwealth's operating budget. The overall budget increase reflects the impact of caseload increases as well as higher costs to provide support for former welfare clients obtaining work, federal mandates, litigation and continued support of county operated programs for child welfare, mental health and mental retardation.

The fiscal year 2008 proposed budget includes \$361.0 million of receipts from the Tobacco Settlement Fund that will be expended for health care. Federal funds matching the additional state Tobacco MSA funds are included in the increase noted above. In addition, under the terms of the 1998 settlement that created the Tobacco Settlement Fund, payments by the tobacco companies may, in certain circumstances be reduced, reflecting decline in cigarette sales, and such payments also may be limited, delayed or terminated as a result of bankruptcy or insolvency of tobacco companies or legal challenges to the settlement. For fiscal year 2007, receipts from the Tobacco MSA have been reduced by \$42.8 million as certain tobacco companies decided to withhold or to place into escrow over \$1 billion in payments from their April 2006 payments to the various states and localities under provisions of the Tobacco MSA. The Commonwealth's share of withheld Tobacco MSA funds totals \$42.8 million and the Commonwealth has filed suit to recover the funding withheld by tobacco companies. For fiscal year 2008, estimated receipts from the April 2007 payment have been reduced by \$43.2 million.

Programs providing temporary financial assistance and medical assistance comprise the largest portion of public health and human services expenditures. General Fund expenditures for these assistance programs by the Commonwealth amounted to \$5.4 billion in fiscal year 2006, while \$5.7 billion is budgeted from the General Fund for fiscal year 2007 and \$6.1 billion is proposed for fiscal year 2008. The fiscal year 2006 budget included the use of \$80.0 million in additional intergovernmental transfer funds to offset General Fund requirements and \$40.0 million is estimated for fiscal year 2008. A nursing home assessment fee provided a General Fund offset of \$213.3 million in fiscal year 2006 and is expected to provide \$145.0 million offset in fiscal year 2007. In fiscal year 2008, the nursing home assessment offset is projected at \$137.5 million. In addition, a managed care organization assessment provided a General Fund offset of \$193.0 million in fiscal year 2006 and is expected to provide a \$204.1 million offset in fiscal year 2007. The managed care organization offset is projected to provide \$187.5 million in General Fund offset in fiscal year 2008. Approximately 41 percent of the total cost of assistance to the economically needy is supported by Commonwealth funds appropriated from the General Fund. The balance is provided from reimbursements by the federal government and through various program collection activities conducted by the Commonwealth.

Medical assistance continues to be a rapidly growing component of public health and human services expenditures. Despite implementation of Commonwealth initiatives to restrain costs, the program continues to grow due to an expanding caseload, technology improvements and general medical inflation. Expenditures for medical assistance increased during the period from fiscal years 1996 through 2006 by an average annual rate of 10.7 percent. Fiscal year 2007 expenditures from Commonwealth funds are projected to be \$5.35 billion and the proposed budget for fiscal year 2008 provides \$5.4 billion for medical assistance, an increase of 1.0 percent over the previous fiscal year. The increase reflects normal inflationary increases and is deflated by proposed cost containment initiatives and cash flow strategies anticipated to reduce General Fund expenditures by \$462.2 million in fiscal year 2008. The Commonwealth has experienced the rise in medical and pharmaceutical costs that has been occurring nationwide. This increase is particularly evident in the rates requested by managed care providers and in services for children. Income maintenance cash assistance payments to families in transition to independence were \$1,082.0 million for fiscal year 2007, of which \$488.8 million is from the General Fund. The proposed budget for fiscal year 2008 includes a total of \$1,117.9 million, with \$538.9 million provided from the General Fund. Cash assistance is time-limited and requires participation in work activities to maintain eligibility. To support a client's finding and retaining employment, small grants are available to clients to overcome employment obstacles such as child care, transportation, vision and hearing difficulties, and other such barriers. In fiscal year 2007 and the future, increased costs are expected to be incurred in training and support for the most hard to place clients in order to meet

the 50 percent work participation requirements included in the Temporary Assistance to Needy Families Reauthorization. These increased costs will include some state-only payments for clients who are working the required amount but still require assistance to complete training.

Transportation

The Commonwealth is responsible for the construction, restoration and maintenance of the highways and bridges in the 40,000 mile state highway system, including certain city streets that are a part of the state highway system. Assistance for the maintenance and construction of local roads and bridges is provided to municipalities through grants of financial aid. Highway maintenance costs, construction costs and assistance grants are paid from the Motor License Fund. The General Fund, the State Lottery Fund and other special funds, including the Public Transportation Assistance Fund, the Liquid Fuels Tax Fund, the Highway Beautification Fund and the Motor Vehicle Transaction Recovery Fund provide the remainder of funding for transportation programs.

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

In addition to its support of the highway system, the Commonwealth provides subsidies for mass transit systems including passenger rail and bus service. The Commonwealth assists local mass transit systems through grants and payment for free rides by senior citizens during non-peak hours. In addition, transit operators receive payments for providing senior citizen transportation service on a shared-ride basis generally in areas where fixed route service is not available. A total of \$444.8 million in Commonwealth revenues was expended from the General Fund and the State Lottery Fund for such purposes in fiscal year 2006, and \$463.7 million is available for fiscal year 2007. In fiscal year 2008, an estimated \$465.1 million is proposed. In addition, new funding is being proposed as part of the fiscal year 2008 budget that would add an estimated \$760 million to this program. Beginning with fiscal year 1998, 1.22 percent of sales and use tax collections in the General Fund, up to an annual limit of \$75 million, is transferred to a separate account and used to pay mass transportation operating grants to local mass transit systems.

In 1991, the Public Transportation Assistance Fund was created with dedicated sources of funding for mass transit systems. Funds totaling \$174.4 million were expended from this fund in fiscal year 2006 and \$175.6 million is available for fiscal year 2007. A total of \$180.1 million is the proposed budget for fiscal year 2008.

Liquid fuels tax and license and fee revenues provide resources for expenditures for highway construction and maintenance. Motor License Fund restricted revenues budgeted for highway construction purposes totaled \$594.2 million in fiscal year 2006. In fiscal year 2007, \$625.8 million is available. In fiscal year 2008, an estimated \$595.2 million is proposed. Combined Motor License Fund and restricted revenues expended for highway maintenance in fiscal year 2006 totaled \$1,445.2 million. A total of \$1,558.5 million is budgeted for fiscal year 2007 while an estimated \$1,375.5 million is proposed for fiscal year 2008. In addition, new funding is being proposed as part of the fiscal year 2008 budget that would add an estimated \$960 million for highway construction and maintenance. Support of highway and bridge expenditures by local governments through grants paid from Motor License Fund and restricted revenues were \$325.5 million in fiscal year 2006. A total of \$333.9 million is available for fiscal year 2007. In fiscal year 2008, an estimated \$331.3 million is proposed.

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 2006, \$8.3 million was expended from the aviation restricted account for such purposes. A total of \$8.3 million is available for fiscal year 2007. For fiscal year 2008, \$9.3 million is proposed.

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

OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH

General

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

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

Table 15
General Obligation Debt Outstanding^(a)
Fiscal Years 1997-2006
(In Millions)

<u>June 30</u>	<u>General Obligation Debt Outstanding</u>
1997.....	\$4,795.1
1998.....	4,724.5
1999.....	4,921.5
2000.....	5,014.9
2001.....	5,416.2
2002.....	6,059.3
2003.....	6,767.2
2004.....	6,892.6
2005.....	6,747.4
2006.....	7,287.0

^(a) Net of sinking fund balances for all debt.

Net outstanding general obligation debt totaled \$7,287.0 million at June 30, 2006, a net increase of \$539.6 million from June 30, 2005. Over the 10-year period ended June 30, 2006, total net outstanding general obligation debt increased at an annual rate of 3.7 percent. Within the most recent 5-year period, outstanding general obligation debt has increased at an annual rate of 6.1 percent.

General obligation debt for non-highway purposes of \$7,149.9 million was outstanding on June 30, 2006. Outstanding debt for these purposes increased by a net \$567.4 million since June 30, 2005. For the period ended June 30, 2006, the 10-year and 5-year average annual compound growth rate for total outstanding debt for non-highway purposes has been 5.4 percent and 7.1 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 \$137.2 million on June 30, 2006, a decrease of \$27.7 million from June 30, 2005. Highway outstanding debt has declined over the most recent 10-year and 5-year periods ended June 30, 2006, by the annual average rates of 16.7 percent and 17.0 percent respectively. The decline in outstanding highway debt is due to the policy begun in 1980 of funding highway capital projects with current revenues except for very limited exceptions. No debt issuance for highway capital projects is currently planned.

Table 16, on the following page, shows selected debt ratios for the Commonwealth for fiscal year 1996 and for fiscal years 2002 through 2006. Table 16 contains corrections to certain prior fiscal year data as well as a

revision in the methodology to account for debt service payments to include funding from all sources rather than debt service as paid from appropriations (resulting in some information in Table 16 being different from that appearing in previous official statements of the Commonwealth).

Table 16
Selected Debt Ratios
Fiscal Years 1996 and 2002 to 2006

	Fiscal Year Ended June 30					
	1996	2002	2003	2004	2005	2006
Net Outstanding Debt (Millions)						
General Obligation Debt(a).....	\$ 5,056	\$ 6,059	\$ 6,767	\$ 6,893	\$ 6,747	\$ 7,287
Lease Payment Obligations(b).....	942	687	648	114	108	476
Total.....	\$ 5,998	\$ 6,746	\$ 7,415	\$ 7,007	\$ 6,855	\$ 7,763
% Increase (Decrease) over prior year.....	-9.0%	11.2%	9.9%	-5.5%	-2.2%	13.2%
Population (Thousands)	12,038	12,324	12,365	12,394	12,430	12,430
Per Capita Debt.....	\$ 498	\$ 547	\$ 600	\$ 565	\$ 551	\$ 625
Personal Income (Millions).....	\$ 297,493	\$ 382,251	\$ 392,791	\$ 412,890	\$ 433,752	\$ 433,752
Debt as a % of Personal Income.....	2.0%	1.8%	1.9%	1.7%	1.6%	1.8%
Debt Service (Millions)(c)						
Highway Bonds(d).....	\$ 183	\$ 84	\$ 62	\$ 50	\$ 33	\$ 36
All Other Bonds(e).....	530	676	701	718	766	800
Lease Payments.....	113	70	73	12	12	125
Total.....	\$ 826	\$ 830	\$ 836	\$ 780	\$ 811	\$ 961
Increase (Decrease) Over Prior Year	-4.2%	(0.1%)	0.7%	(6.7%)	4.0%	18.5%
Cash Revenues (Million)(f)						
Motor License Fund.....	\$ 1,566	\$ 1,955	\$ 1,999	\$ 2,086	\$ 2,157	\$ 2,266
General Fund.....	16,339	20,059	21,315	22,828	24,309	25,854
Total.....	\$ 17,905	\$ 22,014	\$ 23,314	\$ 24,914	\$ 26,465	\$ 28,120
% Increase (Decrease) over prior year.....	0.7%	(2.2%)	5.9%	6.9%	6.2%	6.3%
Highway Bond Debt Service as a % of Motor Fund Revenues.....	11.7%	4.3%	3.1%	2.4%	1.5%	1.6%
All Other Bond Debt Service and Lease % of General Fund Revenues.....	3.9%	3.7%	3.6%	3.2%	3.2%	3.6%
Total Debt Service and Lease Payments as a % License and General Fund Revenues.....	4.6%	3.8%	3.6%	3.1%	3.1%	3.4%

(a) Net of all sinking fund balances. Includes bond anticipation notes.

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

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

(d) Highway Bonds, interest portion of Advance Construction Bonds, Highway Public Improvement Bonds, State Highway and Bridge Authority Bonds, General Authority Rentals, and Highway Bridge Improvement Bonds.

(e) Fiscal year 2002 decline due to use of available balance in lieu of appropriations.

(f) Commonwealth revenues only.

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General Obligation Debt Outstanding

As of June 30, 2006, the Commonwealth had the following amount of general obligation debt outstanding:

Table 17
General Obligation Debt Outstanding as of June 30, 2006

	Debt Outstanding ^(b)	Less: Refunding Escrow ^(c)	Less: Sinking Fund ^(d)	Net Debt Outstanding
Capital Projects Debt:				
Capital Facilities Bonds.....	\$ 5,361,580	\$ (1,500,075)	\$ (7,748)	\$ 3,853,757
Highway Bonds.....	-	-	-	-
Refunding Bonds	2,633,862	-	-	2,633,862
Total Capital Projects Debt Outstanding.....	\$ 7,995,442	\$ (1,500,075)	\$ (7,748)	\$ 6,487,619
Electorate Approved Debt:				
PA Economic Revitalization Bonds.....	\$ 2,880	-	\$ 2,880
Land & Water Development Bonds.....	1,440	-	(189)	1,251
Nursing Home Loan Development Bonds.....	-	-	-	-
Volunteer Companies' Loan Bonds.....	6,740	(5,325)	-	1,415
Vietnam Veterans Compensation Bonds.....	-	-	-	-
Water Facilities Restoration-1981 Referendum.....	13,210	(2,475)	-	10,735
Pennvest—1988 Referendum Bonds.....	53,775	(7,600)	-	46,175
Pennvest—1992 Referendum Bonds.....	26,700	(5,550)	-	21,150
Agricultural Conservation Easement Bonds.....	16,185	(6,050)	-	10,135
Local Criminal Justice Bonds.....	10,670	(4,200)	-	6,470
Keystone Recreation, Parks & Conservation Bonds.....	8,400	(6,750)	-	1,650
Growing Greener Bonds.....	183,000	-	-	183,000
Water Supply and Wastewater Treatment Bonds.....	50,000	-	-	50,000
Total Electorate Approved Debt Outstanding.....	\$ 373,000	\$ (37,950)	\$ (189)	\$ 334,861
Other Bonded Debt:				
Disaster Relief Bonds.....	\$ 17,095	(9,025)	(2)	\$ 8,068
Refunding Bonds.....	456,483	-	-	456,483
Total Other Bonded Debt Outstanding.....	\$ 473,578	\$ (9,025)	(2)	\$ 464,551
Total General Obligation Debt Outstanding.....	\$ 8,842,020	\$ (1,547,050)	\$ (7,939)	\$ 7,287,031

(In Thousands)

^(a) Subsequent to June 30, 2006, the Commonwealth has issued \$950,670,000 million of bonds, which included \$250,670,000 of refunding bonds.

^(b) Accreted value of capital appreciation bonds included.

^(c) Principal amount of bonds refunded to be paid from State Treasurer escrow account.

^(d) Balance in sinking fund.

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Debt service payable during each fiscal year on outstanding general obligation debt, net of refunding escrow amounts, as of June 30, 2006, for the years shown is as follows:

Table 18
Bond Debt Service
(In Thousands)

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$521,774	\$361,874	\$883,648
2008	540,397	336,911	877,308
2009	541,620	309,283	850,903
2010	537,245	277,681	814,926
2011	544,005	249,337	793,342
2012	541,065	221,296	762,361
2013	516,695	193,722	710,417
2014	465,885	167,510	633,395
2015	404,520	143,968	548,488
2016	365,225	124,664	489,889
2017	334,385	107,426	441,811
2018	324,875	90,895	415,770
2019	312,725	74,227	386,952
2020	279,540	59,496	339,036
2021	259,035	47,959	306,994
2022	239,120	35,533	274,653
2023	183,945	24,913	208,858
2024	156,125	16,131	172,256
2025	99,650	9,179	108,829
2026	88,065	4,697	92,762
2027	28,085	702	28,787
Grand Total	\$ 7,283,981	\$ 2,857,401	\$ 10,141,386

Totals may not add due to rounding.

Nature of Commonwealth Debt

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

Once capital projects debt has been authorized by the necessary legislation, issuance authority rests with two of the 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 two of the Issuing Officials, one of whom must be the Governor.

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

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

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

Tax anticipation notes must mature within the fiscal year in which they were 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 within the succeeding fiscal year's budget.

Currently, the Commonwealth has no tax anticipation notes outstanding. The fiscal year 2008 budget does not anticipate issuing tax anticipation notes.

In the last nine fiscal years, the Commonwealth has not issued any tax anticipation notes.

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

Projected Issuance of Long-Term Debt

Table 19 shows projected future issuance of new-money long-term bonds or bond anticipation notes through fiscal year 2011 as currently estimated based on current authorizations. Included in Table 19 are bonds expected to be issued under two bond referendums proposed by the Governor and enacted by the General Assembly in 2004 and 2005. Not included however, are bonds authorized under the economic stimulus program of the Commonwealth Financing Authority. Actual issuance of bonds will be affected by a number of economic and other factors and may vary significantly from this projection.

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Table 19
Projected Bond Issuance and Principal Retirements
Fiscal Years 2007-2011^(a)
(In Millions)

	Fiscal Year Ending June 30				
	2007	2008	2009	2010	2011
Capital Facilities ^(b)					
Buildings and Structures.....	\$ 400	\$ 320	\$ 780	\$ 835	\$ 735
Furniture and Equipment	0	25	80	11	1
Transportation Assistance.....	95	150	150	150	150
Redevelopment Assistance	353	250	315	375	230
Flood Control.....	0	7	5	2	3
Special Purpose:					
Pennvest — 1988 & 1992 Referenda.....	70	40	10	0	0
Local Criminal Justice	0	0	0	0	0
Disaster Relief	0	0	0	0	0
Water Facilities Loan—1981 Referendum	0	0	0	0	0
Water and Wastewater Referendum ^(a)	64	81	40	0	0
Growing Greener II Referendum ^(a)	27	105	105	105	1000
Total Projected Issuance	<u>\$ 1,009</u>	<u>\$ 981</u>	<u>\$ 1,490</u>	<u>\$ 1,485</u>	<u>\$ 1,224</u>
Principal Retirement ^(c)	<u>\$ 521.8</u>	<u>\$ 587.3</u>	<u>\$ 641.1</u>	<u>\$ 685.6</u>	<u>\$ 737.4</u>

Totals may not add due to rounding.

^(a) As proposed in fiscal year 2008 budget.

^(b) Includes issuance for new projects and for projects previously authorized.

^(c) On bonded debt outstanding and pro forma for projected.

OTHER STATE-RELATED OBLIGATIONS

Moral Obligations

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

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

According to PHFA, as of December 31, 2006, PHFA had \$3,787.5 million of revenue bonds outstanding.

Lease Financing

The Commonwealth, through several of its departments and agencies, leases various real property and equipment. Some leases and their respective lease payments are, with the Commonwealth's approval, pledged as security for debt obligations issued by certain public authorities or other entities within the state. All lease payments payable by Commonwealth departments and agencies are subject to and dependent upon an annual spending authorization approved through the Commonwealth's annual budget process. The Commonwealth is not required by law to appropriate or otherwise provide moneys from which the lease payments are to be paid. The obligations to be paid from such lease payments are not bonded debt of the Commonwealth.

Table 20 contains summary information on obligations of significant amounts secured by lease payments from leases with Commonwealth departments and agencies payable from the General Fund or other budgeted special funds.

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

<u>Lessor</u>	<u>Purpose</u>	<u>Maximum Annual Lease Payment</u>	<u>Principal Amount Outstanding as of 12/31/2006</u>	<u>Final Maturity</u>
Harristown Development Corporation	Office Space	\$ 6,306	\$ 53,360	May 1, 2016
Philadelphia Regional Port Authority	Port Facilities	4,601	43,900	Sept. 1, 2020

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

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

These lease obligations and agreements to lease various other facilities and equipment entered into by the Commonwealth are included in Note K to the Fund Financial Statements for the fiscal year ended June 30, 2006.

Commonwealth Financing Authority

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

the Commonwealth but it is expected that the CFA may issue debt that may be payable from appropriations of the Commonwealth.

In November 2005, the CFA issued its first bonds and since that time, the CFA has completed two additional bond issues. As of December 31, 2006, the CFA had \$562.5 million in outstanding bond debt. The Commonwealth's fiscal year 2007 enacted budget appropriated \$36.939 million in state funds to the CFA for payment of all or a portion of CFA debt service during fiscal year 2007. In addition, the Governor's Proposed Budget for fiscal year 2008 included a request for appropriation of \$61.617 million in state funds. Additional appropriations from Commonwealth General Funds for future debt service beyond those mentioned in this section are expected to be requested by the Department of Community and Economic Development for inclusion in future Governor's Executive Budget requests to the General Assembly.

Pensions and Retirement Systems

General Information

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

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

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

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

Act 40 of 2003 ("Act 40"), passed by the General Assembly on December 10, 2003, amended the PSERS' actuarial cost method. Under Act 40, both the outstanding balance of the unfunded accrued liability as of June 30, 2001 and the decrease in the unfunded accrued liability due to the actuarial asset method change provided by Act 38 of 2002 ("Act 38"), passed by the General Assembly on April 23, 2002, continue to be amortized over a 10-year period, with level dollar funding, beginning July 1, 2002 [Under Act 38, they were amortized over 30 years.]. The increases in the unfunded accrued liability due to the July 1, 2002 and July 1, 2003 cost-of-living adjustments provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, starting on July 1, 2003 and July 1, 2004, respectively. All other changes in the unfunded accrued liability at June 30, 2001, June 30,

2002, and June 30, 2003, are amortized over a 30-year period, with level dollar funding, starting on July 1, 2002, July 1, 2003, and July 1, 2004, respectively. Future benefit improvements for active members and retirees will be amortized over a 10-year period with level dollar funding. Future gains and losses will be amortized over a 30-year period with level dollar funding. Act 40 requires a minimum employer contribution of 4.00 percent for PSERS.

With respect to SERS, Act 40 set the amortization period for the accrued liabilities at 10 and 30 year schedules with level payments. Additionally, Act 40 increased minimum contributions for SERS to 2%, 3%, and 4% effective July 1, 2004, 2005, and 2006, respectively; these minimum contribution provision for SERS will expire on July 1, 2007 unless extended. Supplemental annuity contributions are funded over 10 years with level dollar payments. SERS employer rates vary by class/category of service. For fiscal year 2006, the SERS composite employer rate was 3.02 percent and for fiscal year 2007, it is 4.02 percent.

For PSERS, the employer's contribution is shared by the Commonwealth and the school districts. For school entities, the Commonwealth remits its employer contribution portion to those school entities, which then remit the entire employer contributions (both school entity and Commonwealth portions) to PSERS. The Commonwealth's contribution is appropriated annually from the General Fund to the Department of Education. The PSERS employer rate for fiscal year 2006 is 4.69 percent, for fiscal year 2007 it is 6.46 percent, and for fiscal year 2008 it is 7.13 percent.

Commonwealth contributions to both pension systems are projected to increase significantly in fiscal year 2007, based on current assumptions. Commonwealth contributions to SERS and PSERS were \$172.6 million and \$254.50 million respectively in fiscal year 2006. The fiscal year 2007 enacted budget includes Commonwealth contributions for both SERS and PSERS of \$204.0 million and \$368.8 million respectively, an 18 and 45 percent increase respectively in the year-over-year contribution to each system. The proposed fiscal year 2008 budget includes \$216 million and \$452.2 million for SERS and PSERS respectively, with the SERS contribution reflecting the proposed change in the SERS employer contribution rate described below. Additionally, based on the most recent valuations of the two systems, after several years of projected moderate increases, Commonwealth contributions to both systems are projected to increase significantly in fiscal year 2013. Current projections forecast that Commonwealth contributions to SERS will be zero in fiscal year 2012, due mainly to the expiration of the minimum contribution provisions for SERS as provided in Act 40, as well as the continued effect of the change in the amortization period from 30 years to 10 years in Act 40. However, the Commonwealth contributions to SERS are projected to rise to \$711.0 in fiscal year 2013. For PSERS, the number is \$349.0 million for fiscal year 2012 and \$1,203.0 million for fiscal year 2013. On April 25, 2007, the SERS Board certified an employer contribution rate of 1.91 percent, but the Governor's Executive Budget for fiscal year 2008 proposes maintaining the rate at the significantly higher 4.0 percent level for agencies under the Governor's jurisdiction. If the Governor's proposal is not enacted into law through amendments to the Retirement Code, the forecast employer contribution of SERS in fiscal year 2012 is estimated to be \$729.5 million.

The projected Commonwealth contribution levels for fiscal years 2012 and 2013 listed above are materially higher than those projected in the Commonwealth's last Official Statement dated December 5, 2006. The projected increases reflect a variety of factors. These include a significant increase in benefits enacted in 2001, a cost of living adjustment implemented in 2002 and actuarial method changes enacted in 2002 and 2003.

Both SERS and PSERS have recently announced strong investment returns – 16.4 percent for SERS and 15.3 percent for PSERS in fiscal year 2006. Three years of top-decile investment returns have reduced the forecast fiscal year 2013 contribution rate for both systems. The projected fiscal year 2013 contribution rate for SERS has been reduced from 24.9 percent of payroll, based on the 2003 valuation, to 10.2 percent of payroll, based on the 2006 valuation. With respect to PSERS, the projected fiscal year 2013 employer contribution has been reduced from 27.7 percent of payroll, based on the 2003 valuation, to 18.7 percent of payroll, based on the 2006 valuation. Under current law and using such assumptions, employer contributions for SERS could now be virtually eliminated between fiscal year 2009 and fiscal year 2012 and Commonwealth contributions to PSERS could decrease from \$445 million in fiscal year 2008 to less than \$350 million by fiscal year 2012. The systems' most recent valuations, however, still project at least a single-year increase of approximately 700 percent from zero to at least \$700 million

for SERS in fiscal year 2013 and a 240 percent increase, from approximately \$500.0 million to at least \$1,200.0 million in the Commonwealth employer contribution rate for PSERS in fiscal year 2013. Such forecasts and their accuracy in terms of the amount of funding actually required in future years may also be affected by the actuarial procedures required under state law. Required contributions in forecasts for the period ending in 2012 are, under current procedures, positively affected, i.e., the are lower than they otherwise would be, because of the unusually high investment returns in recent years and their assumed continuance in forecasted future returns. Forecasts assuming annual 15 to 16 percent investment returns should be appropriately discounted to reflect more conservative investment assumptions.

Reflecting the above numbers and factors, the Commonwealth currently is actively evaluating ways both to moderate and to finance the substantial contribution increases now projected to begin in fiscal year 2012.

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

Table 21
Public School Employees' Retirement Fund
(In Millions)

<u>Year Ended</u> <u>June 30</u>	<u>Employer</u> <u>Contributions</u>	<u>Employee</u> <u>Contributions</u>	<u>Net Investment</u> <u>Income</u>	<u>Total Deductions From</u> <u>Plan Net Assets</u> ^(a)	<u>Net</u> <u>Assets</u> ^(b)
2002	\$109	\$806	\$(2,523)	\$2,948	\$43,597
2003	116	897	1,022	3,144	42,488
2004	407	944	8,245	3,547	48,537
2005	458	955	6,081	3,920	52,111
2006	531	983	7,943	4,164	57,417

^(a) Includes the PSERS administrative expenses.

^(b) PSERS adopted GASB Statement Nos. 25 and 26 retroactively to fiscal 1994. GASB Statement No. 25 requires the presentation of Plan Net Assets, which combines the cumulative residual effects of all System assets and current liabilities. System long-term actuarial liabilities are not presented on the System's basic financial statements, but instead are presented upon a supplementary schedule of funding progress. The presentations above include the effects of financial activity related to the administration of the PSERS healthcare insurance premium assistance program and Health Options Program. As required with the adoption of GASB Statement No. 26, separate financial presentation for these programs are made on PSERS financial statements. PSERS also adopted GASB Statement No. 34 for the fiscal year beginning July 1, 2001 that requires the presentation of Management's Discussion and Analysis as required supplementary information preceding the financial statement.

Table 22
State Employees' Retirement Fund
(In Millions)

<u>Year Ended</u> <u>December 31</u>	<u>Employer</u> <u>Contributions</u>	<u>Employee</u> <u>Contributions</u>	<u>Net Investment</u> <u>Income</u> ^(a)	<u>Total Deductions</u> <u>From Plan Net Assets</u> ^(b)	<u>Plan Net</u> <u>Assets</u> ^(c)
2001	\$77	\$241	\$(2,226)	\$1,266	\$24,706
2002	51	304	(2,731)	1,450	20,880
2003	69	308	4,936	1,656	24,536
2004	107	310	3,569	1,881	26,641
2005	148	306	3,623	1,966	28,752
2006	196	318	4,730	1,943	32,053

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

^(b) Includes SERS administrative costs.

^(c) Market value of investment assets. SERS adopted GASB Statement No. 25. GASB Statement No. 25 requires that investments be reported at their fair value. Also includes securities lending collateral pool pursuant to GASB Statement No. 28. In 2002, SERS adopted GASB Statement No. 34, which requires the presentation of Management Discussion and Analysis as required supplementary information preceding the financial statements. The 2006 year data is unaudited.

Annual actuarial valuations are required by state law to determine the employer contribution rates necessary to accumulate sufficient assets and provide for payment of future benefits. The actuary's recommendations for employer contribution rates represent a funding plan for meeting current and future retirement obligations and are included in the enacted budget for the current fiscal year. The employer's contribution rate is computed to fully amortize the unfunded actuarial accrued liability of the respective plan as determined by its actuary. The unfunded accrued liability is a measure of the present value of benefits estimated to be due in the future for current employees given assumptions as to mortality, pay levels, retirement experience and employee turnover, less the present value of assets available to pay those benefits given assumptions of normal cost, supplemental annuity amortization, employer contribution levels and member contributions. The unfunded actuarial accrued liability for the most recent years with completed valuations based on the projected benefit method utilizing level percentage entry age and normal cost is shown in Table 23 on the following page. Both SERS and PSERS currently use an investment rate of return assumption of 8.5 percent.

Table 23
Unfunded Actuarial Accrued Liability
2001-2005
(In Millions)

<u>Valuation Year Ended</u>	<u>SERS</u> ^(a)	<u>PSERS</u> ^(b)
2001	(3,846)	(6,913)
2002	(1,848)	(2,500)
2003	(1,286)	(1,543)
2004	1,099	5,028
2005	2,058	10,007
2006	NA	12,163

^(a) The fiscal year for SERS ends on December 31 of each year.

^(b) The fiscal year for PSERS ends on June 30 of each year. The net increase in the unfunded actuarial accrued liability from 2001 to 2005 is attributable to pension plan modification under Act 9 of 2001 and Act 38 of 2002 and actual rates of return below the actuarially assumed rate.

For financial reporting purposes, both SERS and PSERS have adopted the Governmental Accounting Standards Board's Statement No. 25. This Statement requires a specific method of accounting and financial reporting for defined benefit pension plans. Among other things, the Statement requires a comparison of employer contributions to "annual required contributions" (the "ARC"). Independently audited financial statements for both SERS and PSERS, as of December 31, 2005 and June 30, 2006, respectively, provide this comparison for each of the five fiscal years then ended.

Other Post-Employment Benefits

In addition to a defined benefit retirement plan for State employees and employees of certain state-related organizations, the Commonwealth also provides certain health care benefits for Commonwealth retirees and retired State Police enlisted members. These and similar benefits are commonly referred to as "other post-employment benefits" or "OPEB." The State Police retiree benefits are determined through collective bargaining, while the Commonwealth's other retiree health care benefits are determined by the Commonwealth.

The General Assembly, based upon the Governor's request, annually appropriates funds to meet its obligation to pay such benefits on a "pay-as-you-go" basis. The Commonwealth has not established any fund or irrevocable trust for the accumulation of assets with which to pay such benefits in future years. Such expenditures are currently funded by the Commonwealth's General Fund (approximately 48 percent), Federal, Other and Special Funds. In fiscal year 2005 costs for such benefits totaled approximately \$469 million, and in fiscal year 2006 approximately \$499 million. The enacted budget for fiscal year 2007 estimates costs for retiree health care at \$556 million from all funding sources, including the General Fund, while fiscal year 2008 costs are currently estimated to

be \$625 million. The Commonwealth has established a restricted receipts account for the purpose of accumulating the funds from which OPEB costs are paid. This restricted receipts account accumulated an ending balance of \$144 million in fiscal year 2006, which is expected to grow to \$277 million by the end of fiscal year 2007.

On June 21, 2004, the Governmental Accounting Standards Board (GASB) released its Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("Statement No. 45"). Statement No. 45 establishes standards for the measurement, recognition and display in the financial reports of state and local governments of obligations to pay OPEBs when provided separately from a pension plan expense or expenditures and related liabilities. Under Statement No. 45, governments will be required to: (i) measure the costs of benefits, and recognize other post-employment benefits expenses, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities of promised benefits associated with past services and whether, or to what extent, those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer's future cash flows. Statement No. 45 reporting requirements are effective for the Commonwealth in fiscal year 2008, and therefore the Commonwealth's financial statements to date do not reflect these requirements.

To date, the Commonwealth has not received a completed actuarial valuation of its potential liability to pay retiree health care benefits.

In 2006, the Commonwealth retained the Hay Group, a national employee benefits consulting firm, to provide actuarial services for the Commonwealth in preparation for GASB 45 implementation. Through March 2007, the Hay Group has collected substantial demographic, utilization and cost data and provided to the Commonwealth various preliminary draft actuarial valuations addressing the requirements of Statement No. 45. The Hay Group has developed a preliminary actuarial valuation of the Commonwealth's OPEB liability but the Commonwealth has subsequently supplied additional information and has requested a revised valuation. In particular, the Hay Group has provided the Commonwealth the following preliminary draft valuations:

1. Estimated unfunded actuarial accrued liability ("UAAL") as of July 1, 2007 -- \$13.778 billion.
2. Estimated potential annual required contribution ("ARC") -- \$1.125 billion. Note that this estimate should be reduced to reflect the amount of cash the Commonwealth currently contributes annually for such benefits. The currently estimated cash contribution ("pay-as-you-go") from all funds for such benefits for fiscal year 2008 is \$625 million, thereby resulting in an estimated net reportable OPEB liability of \$500 million as of June 30, 2008.

Assuming that the contributions from the General Fund for such benefits continue at 48 percent as described above, the projected impact of the estimated UAAL, ARC and net OPEB liability on the Commonwealth's General Fund would be approximately one half of the estimated valuations cited herein.

As noted above, after reviewing the various actuarial assumptions and cost methods, including discount rates, utilized by the Hay Group, the Commonwealth has (1) provided updated demographic, census and utilization data and (2) requested that the Hay Group revise its valuation accordingly. The Commonwealth has also requested that the Hay Group further refine its estimates based on recently bargained changes to the benefit plans. Recently completed collective bargaining agreements, covering approximately 72.5 percent of the Commonwealth's employees and extending through June 30, 2011, provide for significant increases in employee share contributions to the Commonwealth's Retired Employee Health Program ("REHP"), the Commonwealth's main OPEB program. In particular, contributions by retired employees will increase over time from one percent of final gross salary to three percent in fiscal year 2011. Any future changes in active employee contribution rates will cause a corresponding change in annuitant contribution rates. Before the new collective bargaining agreements take effect on July 1, 2007, an increase in the number of retirements could increase the number of eligible participants under the existing annuitant contribution rates for REHP. **Accordingly, all of the above numbers must be considered preliminary and are subject to material change.** The actuarial measures to be used for the financial statements beginning as of June 30, 2008, will reflect further revisions and refinements and will be determined using a December 31, 2005 valuation date.

The Commonwealth expects the Hay Group to complete its actuarial services by the Fall of 2007. The Commonwealth may provide additional information on OPEBs when further analysis and refinement have been completed.

Future Obligations

The Commonwealth has already taken several steps to manage its OPEB obligations over time. These include, but are not limited to:

1. Establishing a restricted receipt account for the accumulation of assets to fund a portion of its OPEB liability. While it is recognized that this account is not yet an irrevocable trust, balances continue to accumulate in this Commonwealth account. The fiscal year 2007 ending balance in this account is estimated to be \$277 million,
2. As discussed above, employees retiring after July 1, 2007 are required to pay an escalating percentage of their final salary as a contribution towards the cost of retiree health care coverage. The current contribution rate is 1 percent and it will rise to 3 percent by June 30, 2011. Any future collectively bargained increases in the employee contribution rate for active employees will also automatically cover all retirees who retire after July 1, 2007,
3. State Police new hires are required to enroll in Medicare upon age 65,
4. Employees retiring after July 1, 2005 but prior to July 1, 2007 are required to pay 1 percent of their final salary as a contribution towards the cost of coverage,
5. Service requirement eligibility has been lengthened from 15 years to 20 years, starting after June 30, 2008,
6. The Commonwealth has applied for Medicare Part D drug subsidy for its retirees as of September 2005,
7. The Commonwealth has rebid health care and pharmacy coverages periodically to obtain lower costs,
8. Employees retiring after July 1, 2004 will have their post employment benefits changed automatically as the benefits for active employees are updated and changed,
9. State Police retirees are eligible to enroll in preferred provider organization (PPO) plans and State Police retirees will have three tier drug formularies.

Beyond these steps and others contemplated but not yet implemented or negotiated, the General Assembly has not, to date, adopted or considered any program for funding OPEB payments other than from annual appropriations on a “pay-as-you-go” basis. As indicated above, the Commonwealth has received draft valuations for both its UAAL and ARC estimates, and its audited financial statements currently do not reflect any obligation to make such payments. Based on existing collective bargaining agreements and related assumptions, the Commonwealth believes that the amount of such payments necessary to continue to fund OPEBs on a “pay-as-you-go” basis will increase modestly in future years. Conversely, based on the same collective bargaining agreements and related assumptions, the Commonwealth believes that the amount of contributions required to fund SERS and PSERS will increase substantially beginning in fiscal year 2013 as described above under “General Information.” The Commonwealth is actively evaluating additional ways to address these significant increases and expects to take into account OPEB obligations as it addresses issues related to employee benefits.

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APPENDIX D

FORM OF CO-BOND COUNSEL OPINION

FORM OF OPINION TO BE DELIVERED BY ECKERT SEAMANS CHERIN & MELLOTT, LLC AND R. DARRYL PONTON & ASSOCIATES

The form of the approving legal opinion of Eckert Seamans Cherin & Mellott, LLC and R. Darryl Ponton & Associates, Co-Bond Counsel, is set forth below. The actual opinion will be delivered on the date of delivery of the Bonds and may vary from the form set forth to reflect circumstances both factual and legal at the time of such delivery. Recirculation of this Official Statement shall create no implication that Eckert Seamans Cherin & Mellott, LLC or R. Darryl Ponton & Associates has reviewed any of the matters set forth in such opinion subsequent to the date thereof.

We have acted as Co-Bond Counsel in connection with the issuance by the Sports & Exhibition Authority of Pittsburgh and Allegheny County (the "Authority") of its \$252,000,000 aggregate principal amount of Commonwealth Lease Revenue Bonds, Series A of 2007 (Variable Rate Demand) (the "Series A Bonds") and \$61,265,000 aggregate principal amount of Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Variable Rate Demand) (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds").

The Bonds are being issued pursuant to the Sports and Exhibition Authority Act, 16 P.S. Section 5501-A et seq., and pursuant to a Trust Indenture dated as of September 15, 2007 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N. A., as trustee (the "Trustee"). The Bonds are limited obligations of the Authority which are payable solely from the "Trust Estate" described in the Indenture. Neither the credit nor the taxing power of the Commonwealth of Pennsylvania or any political subdivision, agency or instrumentality thereof is pledged for the payment of the Bonds.

We have examined the Indenture, the form of the Bonds, such constitutional and statutory provisions and other pertinent records, proceedings, certificates, instruments and documents as we have deemed necessary or appropriate in order to enable us to render an informed opinion as to the matters as set forth herein. As to questions of fact material to our opinion, we have relied upon certified proceedings and other certificates furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion, as of the date hereof, and under existing law, that:

1. The Authority is a body corporate and politic and is a validly existing authority under the laws of the Commonwealth of Pennsylvania. The Authority has and at all relevant times has had corporate power to issue the Bonds in the manner provided in the Indenture.
2. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes a valid and binding obligation of the Authority.
3. The Indenture creates a valid lien on the Trust Estate for the security of the Bonds to the extent provided in the Indenture.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority, payable solely from the Trust Estate to the extent provided in the Indenture.

5. Interest on the Series A Bonds is excluded 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 and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series A Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series A Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Series A Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.


It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally heretofore or hereafter enacted to the extent applicable and may also be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

	FINANCIAL SECURITY ASSURANCE®	MUNICIPAL BOND INSURANCE POLICY
ISSUER:		Policy No.: -N
BONDS:		Effective Date:
		Premium: \$
<p>FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.</p> <p>On the later of the day on which such principal and interest becomes Due for Payment on the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.</p> <p>Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment</p>		

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

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

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

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

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer


A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

APPENDIX F

SPECIMEN DEBT SERVICE RESERVE FUND SURETY POLICY

	FINANCIAL SECURITY ASSURANCE®	MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY
ISSUER:		Policy No.: R
BONDS:		Effective Date:
		Premium: \$
		Termination Date:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the **[Bond Document]** **[Insurance Agreement]**.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to

interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

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

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

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

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 501 NY (6/90)

APPENDIX G

**PROPOSED FORMS OF
CONTINUING DISCLOSURE AGREEMENTS
FOR THE AUTHORITY AND THE COMMONWEALTH**

AUTHORITY DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of September 15, 2007 (this “Disclosure Agreement”) is executed and delivered by **SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY** (the “SEA”) and **THE BANK OF NEW YORK TRUST COMPANY, N.A.** as dissemination agent (in such capacity, the “Dissemination Agent”), in connection with the issue and sale of \$252,000,000 aggregate principal amount of Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Series A of 2007 and its \$61,265,000 Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (collectively, the “Bonds”) under a Trust Indenture, dated as of September 15, 2007 (the “Indenture”), between the SEA and The Bank of New York Trust Company, N.A., as Trustee (in such capacity, the “Trustee”). The SEA and the Dissemination Agent covenant and agree as follows:

Section 1. General. This Disclosure Agreement is executed and delivered by the SEA and the Dissemination Agent for the benefit of the holders and Beneficial Owners of the Bonds and in order to allow the Participating Underwriters, as defined below, to comply with Securities and Exchange Commission Rule 15c2-12(b)(5), as the same may be amended from time to time (the “Rule”). The SEA is an “obligated person” as defined by and pursuant to the Rule.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the SEA pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the Executive Director of the SEA or such other person as the SEA shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean The Bank of New York Trust Company, N.A. acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the SEA and which has filed with the SEA and the Dissemination Agent a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule, as such term is used in the Securities and Exchange Commission Release No. 34-34961.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Depository, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Act of 1934, as the same may be amended from time to time.

“State Depository” shall mean any public or private depository or entity designated by the Commonwealth of Pennsylvania as a state depository for the purpose of the Rule and as such term is used in the Securities and Exchange Commission Release No. 34-34961. As of the date of this Disclosure Agreement, there is no State Depository.

Section 3. Annual Reports.

(a) The SEA shall, or shall cause the Dissemination Agent to, not later than 210 days after the end of the SEA’s fiscal year (presently December 31), commencing with the report for the Fiscal Year ending December 31, 2007, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement; provided, at any time when the Trustee is not also the Dissemination Agent, the Trustee shall have no responsibility for monitoring the SEA’s compliance with such Section 4. If the SEA’s fiscal year changes, the SEA shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the SEA shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent).

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the SEA certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The SEA’s Annual Report shall include the following:

(a) the amount of Arena Lease Revenues received by the SEA pursuant to the Arena Lease, if any, during the prior Fiscal Year;

(b) the amount of any receipts and revenues received by the SEA pursuant to the Casino Operator Agreement(s), if any, during the prior Fiscal Year;

(c) the amount of any receipts and revenues received by the SEA from the Economic Development and Tourism Fund, if any, during the prior Fiscal Year;

(d) the amount of any Commonwealth Lease Payments received by the SEA pursuant to the Commonwealth Lease, if any, during the prior Fiscal Year; and

(e) copies of any notices delivered by or on behalf of the SEA pursuant to the Commonwealth Lease and the Indenture during the prior Fiscal Year.

Section 5. Reporting of Material Events

(a) Pursuant to the provisions of this Section 5, the SEA shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of Bondholders;
- (viii) bond calls (excluding mandatory sinking fund redemptions);
- (ix) defeasances;
- (x) rating changes;
- (xi) release, substitution or sale of property securing repayment of the Bonds;
- (xii) the failure and/or delay of the Governor of the Commonwealth to budget any funds necessary for the payment of Commonwealth Lease Payments pursuant to Sections 2 and 5 of the Commonwealth Lease;
- (xiii) the failure and/or delay of the General Assembly of the Commonwealth to appropriate any funds necessary for the payment of Commonwealth Lease Payments pursuant to Sections 2 and 5 of the Commonwealth Lease;
- (xiv) any default by the Authority under the Commonwealth Lease;
- (xv) any amendment or modification to the Commonwealth Lease affecting the rights of Bondholders including, without limitation, amendments or modifications to the definition of Rental Payment Obligations in connection with the issuance of Additional Bonds; or
- (xvi) the issuance of Additional Bonds pursuant to the Indenture.

(b) The Dissemination Agent shall, within two Business Days of obtaining actual knowledge (defined as the actual knowledge of the employee of the Trustee performing the Trustee duties under the Indenture) of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the SEA promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the SEA obtains knowledge of the occurrence of a Listed Event, because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the SEA shall as soon as practicable determine if such event is material under applicable federal securities laws.

(d) If the SEA has determined that the occurrence of a Listed Event is material under applicable federal securities laws, the SEA shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the SEA determines that the Listed Event is not material under applicable federal securities laws, the SEA shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the SEA to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence, in the form prepared by the SEA, with each National Repository or the Municipal Securities Rulemaking Board and with the State Depository, if any, with a copy to the SEA. Notwithstanding the foregoing, notice of Listed Events described in subsections (a) (viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

(g) Notwithstanding any other provisions of this Disclosure Agreement, any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the

“MAC”) as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 6. Termination of Reporting Obligation. Except as provided in Section 10 hereof, the SEA’s obligations under this Disclosure Agreement, as set forth herein, shall terminate upon payment or redemption of the Bonds in full or upon legal defeasance in accordance with the Indenture.

Section 7. Dissemination Agent. The SEA may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement. The SEA may discharge a Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the SEA pursuant to this Disclosure Agreement.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the SEA and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so required by the SEA) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 5(a) it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the SEA with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) The amendment or waiver either (i) is approved by the holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Dissemination Agent or nationally recognized bond counsel, materially impair the interests of the holders or Beneficial Owners of the Bonds; and

(d) The Dissemination Agent receives an opinion of nationally recognized bond counsel to the effect that such amendment or waiver satisfies the condition of this Section 8.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the SEA shall describe such amendment or waiver in a notice to be given in the same manner as for a Listed Event under Section 5(f) as applicable, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the SEA from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Agreement.

Section 10. Default. In the event of a failure of the SEA or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the holders of at least 50% aggregate principal amount of Outstanding Bonds and upon receipt of satisfactory indemnity, shall) enforce the obligations hereunder; provided, however, the sole remedy available shall be an action seeking mandamus or specific performance by court order, to cause the SEA or the Dissemination Agent, as the case may be, to comply with their respective obligations under this Disclosure Agreement.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and no further duties or responsibilities shall be implied. The Dissemination Agent shall not have any liability under, nor duty to inquire into the terms and provisions of any agreement or instructions, other than as outlined in this Disclosure Agreement. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any written notice, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper party or parties.

The Dissemination Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document. The Dissemination Agent may resign and be discharged of its duties and obligations hereunder by giving thirty (30) days notice in writing of such resignation specifying a date when such resignation shall take effect. So long as the Dissemination Agent is the Trustee, it shall have the same protections, including indemnifications, from the SEA that it has when acting as Trustee under the Indenture.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the SEA: Sports & Exhibition Authority of Pittsburgh
and Allegheny County
425 Sixth Avenue, Suite 2750
Pittsburgh, PA 15219
Attn: Chief Financial Officer
Phone: (412) 393-0206
Fax: (412) 393-0204

To the Dissemination Agent: The Bank of New York Trust Company, N.A.
One Oxford Centre
301 Grant Street, Suite 1100
Pittsburgh, PA 15219
Attn: Elaine D. Renn, Vice President
Phone: (412) 291-2036
Fax: (412) 456-5567

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the SEA, the Dissemination Agent, the Trustee, the Participating Underwriter, and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

WITNESS the due execution hereof as of the day and year first above written.

**SPORTS & EXHIBITION AUTHORITY OF
PITTSBURGH AND ALLEGHENY COUNTY**

By _____
Authorized Officer

**THE BANK OF NEW YORK TRUST
COMPANY, N.A.,**
as Dissemination Agent

By _____
Authorized Signatory

COMMONWEALTH DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of September 15, 2007 (this "Disclosure Agreement") is executed and delivered by the **COMMONWEALTH OF PENNSYLVANIA** (the "Commonwealth") and **SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY** (the "SEA") in connection with the issue and sale of \$252,000,000 aggregate principal amount of the Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Series A of 2007 and \$61,265,000 Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (collectively, the "Bonds") under a Trust Indenture, dated as of September 15, 2007 (the "Indenture"), between the SEA and The Bank of New York Trust Company, N.A., as Trustee (the "Trustee") and secured, in part, by the Agreement of Lease dated September 15, 2007 (the "Commonwealth Lease") between the SEA and the Commonwealth. The Commonwealth and the SEA covenant and agree as follows:

Section 1. General. This Disclosure Agreement is executed and delivered by the Commonwealth and the SEA for the benefit of the holders and Beneficial Owners of the Bonds and in order to allow the Participating Underwriters, as defined below, to comply with Securities and Exchange Commission Rule 15c2-12(b)(5), as the same may be amended from time to time (the "Rule"). The Commonwealth is an "obligated person" as defined by and pursuant to the Rule.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Commonwealth pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule, as such term is used in the Securities and Exchange Commission Release No. 34-34961.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Depository, if any.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Act of 1934, as the same may be amended from time to time.

"State Depository" shall mean any public or private depository or entity designated by the Commonwealth of Pennsylvania as a state depository for the purpose of the Rule and as such term is used in the Securities and Exchange Commission Release No. 34-34961. As of the date of this Disclosure Agreement, there is no State Depository.

Section 3. Annual Reports.

(f) The Commonwealth shall not later than 240 days after the end of the Commonwealth fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2007, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements, if any, of the Commonwealth may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by

that date. If the Commonwealth's fiscal year changes, the Commonwealth shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

Section 4. Content of Annual Reports. The Commonwealth's Annual Report shall include an update of the financial and operating information provided by the Commonwealth in APPENDIX C – "Financial and Other Information relating to the Commonwealth" to the Official Statement dated October 2, 2007 relating to the Bonds.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Commonwealth or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board or the Securities and Exchange Commission. The Commonwealth shall clearly identify each such other document so included by reference.

Section 5. Reporting of Material Events

(a) Pursuant to the provisions of this Section 5, the Commonwealth shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) the failure and/or delay, beyond August 1 of any fiscal year, of the Governor of the Commonwealth to budget any funds necessary for the payment of Commonwealth Lease Payments pursuant to Sections 2 and 5 of the Commonwealth Lease;
- (ii) the failure and/or delay of the General Assembly of the Commonwealth to appropriate any funds necessary for the payment of Commonwealth Lease Payments pursuant to Sections 2 and 5 of the Commonwealth Lease;
- (iii) any default by the Commonwealth under the Commonwealth Lease;
- (iv) any amendment or modification to the Commonwealth Lease affecting the rights of Bondholders; or
- (v) any approval of the Governor of the Commonwealth and any amendments or modifications to the definition of Rental Payment Obligations under the Commonwealth Lease in connection with the issuance of Additional Bonds.

(b) Whenever the Commonwealth obtains knowledge of the occurrence of a Listed Event, the Commonwealth shall as soon as practicable file a notice of such occurrence, with each National Repository or the Municipal Securities Rulemaking Board and with the State Depository, if any.

(c) Notwithstanding any other provisions of this Disclosure Agreement, any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 6. Termination of Reporting Obligation. Except as provided in Section 9 hereof, the Commonwealth's obligations under this Disclosure Agreement, as set forth herein, shall terminate upon payment or redemption of the Bonds in full or upon legal defeasance in accordance with the Indenture.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Commonwealth and the SEA may amend this Disclosure Agreement (and the SEA shall agree to any amendment so required by the Commonwealth) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 5(a) it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Commonwealth with respect to the Bonds, the Commonwealth Lease or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) The amendment or waiver either (i) is approved by the holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the SEA or nationally recognized bond counsel, materially impair the interests of the holders or Beneficial Owners of the Bonds; and

(d) The SEA receives an opinion of nationally recognized bond counsel to the effect that such amendment or waiver satisfies the condition of this Section 7.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Commonwealth shall describe such amendment or waiver in a notice to be given in the same manner as for a Listed Event under Section 5(b) as applicable, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver.

Section 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Commonwealth from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Agreement.

Section 9. Default. In the event of a failure of the Commonwealth to comply with any provision of this Disclosure Agreement, the SEA may (and, at the request of any Participating Underwriter or the holders of at least 50% aggregate principal amount of Outstanding Bonds and upon receipt of satisfactory indemnity, shall) enforce the obligations hereunder; provided, however, the sole remedy available shall be an action seeking mandamus or specific performance by court order, to cause the Commonwealth, to comply with its obligations under this Disclosure Agreement.

Section 10. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Commonwealth:	Commonwealth of Pennsylvania <u>Office of Budget</u> <u>303 Walnut Street</u> <u>Verizon Tower, 7th Floor</u> <u>Harrisburg, PA 17101</u>
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Phone: (717) 787-7342
Fax: (717) 787-1743

To the SEA:	Sports & Exhibition Authority of Pittsburgh and Allegheny County 425 Sixth Avenue, Suite 2750 Pittsburgh, PA 15219 Attn: Chief Financial Officer Phone: (412) 393-0206 Fax: (412) 393-0204
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Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Commonwealth, the SEA, the Participating Underwriter, and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 12. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

WITNESS the due execution hereof as of the day and year first above written.

COMMONWEALTH OF PENNSYLVANIA

By _____
Authorized Officer

**SPORTS & EXHIBITION AUTHORITY OF
PITTSBURGH AND ALLEGHENY COUNTY**

By _____
Authorized Signatory

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APPENDIX H

ESTIMATED SPECIAL REVENUES - ECONOMIC DEVELOPMENT AND TOURISM FUND AND CASINO OPERATOR

Sports and Exhibition Authority of Pittsburgh and Allegheny County

Commonwealth Lease Revenue Bonds

Series A of 2007 (Variable Rate Demand)

Special Revenues Underlying Tax-Exempt Bonds

<i>ESTIMATED ECONOMIC DEVELOPMENT & TOURISM FUND</i>			<i>ESTIMATED CASINO OPERATOR</i>			<i>ESTIMATED TOTAL</i>
Annual Payment Date By	Number of Payments	Economic Development & Tourism Fund	Annual Payment Date By	Number of Payments	Casino Operator	Aggregate Total
10/01/08	1 and 2	15,000,000.00				15,000,000.00
10/01/09	3	7,500,000.00	10/01/09	1	7,500,000.00	15,000,000.00
10/01/10	4	7,500,000.00	10/01/10	2	7,500,000.00	15,000,000.00
10/01/11	5	7,500,000.00	10/01/11	3	7,500,000.00	15,000,000.00
10/01/12	6	7,500,000.00	10/01/12	4	7,500,000.00	15,000,000.00
10/01/13	7	7,500,000.00	10/01/13	5	7,500,000.00	15,000,000.00
10/01/14	8	7,500,000.00	10/01/14	6	7,500,000.00	15,000,000.00
10/01/15	9	7,500,000.00	10/01/15	7	7,500,000.00	15,000,000.00
10/01/16	10	7,500,000.00	10/01/16	8	7,500,000.00	15,000,000.00
10/01/17	11	7,500,000.00	10/01/17	9	7,500,000.00	15,000,000.00
10/01/18	12	7,500,000.00	10/01/18	10	7,500,000.00	15,000,000.00
10/01/19	13	7,500,000.00	10/01/19	11	7,500,000.00	15,000,000.00
10/01/20	14	7,500,000.00	10/01/20	12	7,500,000.00	15,000,000.00
10/01/21	15	7,500,000.00	10/01/21	13	7,500,000.00	15,000,000.00
10/01/22	16	7,500,000.00	10/01/22	14	7,500,000.00	15,000,000.00
10/01/23	17	7,500,000.00	10/01/23	15	7,500,000.00	15,000,000.00
10/01/24	18	7,500,000.00	10/01/24	16	7,500,000.00	15,000,000.00
10/01/25	19	7,500,000.00	10/01/25	17	7,500,000.00	15,000,000.00
10/01/26	20	7,500,000.00	10/01/26	18	7,500,000.00	15,000,000.00
10/01/27	21	7,500,000.00	10/01/27	19	7,500,000.00	15,000,000.00
10/01/28	22	7,500,000.00	10/01/28	20	7,500,000.00	15,000,000.00
10/01/29	23	7,500,000.00	10/01/29	21	7,500,000.00	15,000,000.00
10/01/30	24	7,500,000.00	10/01/30	22	7,500,000.00	15,000,000.00
10/01/31	25	7,500,000.00	10/01/31	23	7,500,000.00	15,000,000.00
10/01/32	26	7,500,000.00	10/01/32	24	7,500,000.00	15,000,000.00
10/01/33	27	7,500,000.00	10/01/33	25	7,500,000.00	15,000,000.00
10/01/34	28	7,500,000.00	10/01/34	26	7,500,000.00	15,000,000.00
10/01/35	29	7,500,000.00	10/01/35	27	7,500,000.00	15,000,000.00
10/01/36	30	7,500,000.00	10/01/36	28	7,500,000.00	15,000,000.00
			10/01/37	29	7,500,000.00	7,500,000.00
			10/01/38	30	7,500,000.00	7,500,000.00
Total		225,000,000.00			225,000,000.00	450,000,000.00

*Provided by the Sports and Exhibition Authority of Pittsburgh and Allegheny County.
Please see relevant sections in POS forepart for commentary and risks associated with the Special Revenues.*

ESTIMATED SPECIAL REVENUES - ARENA LEASE

Sports and Exhibition Authority of Pittsburgh and Allegheny County

Commonwealth Lease Revenue Bonds

Taxable Series B of 2007 (Variable Rate Demand)

Special Revenues Underlying Taxable Bonds

<i>ESTIMATED ARENA LEASE</i>		
Annual Payment Date By	Number of Payments	Arena Lease
10/01/10	1	4,100,000.00
10/01/11	2	4,300,000.00
10/01/12	3	4,300,000.00
10/01/13	4	4,300,000.00
10/01/14	5	4,300,000.00
10/01/15	6	4,300,000.00
10/01/16	7	4,300,000.00
10/01/17	8	4,300,000.00
10/01/18	9	4,300,000.00
10/01/19	10	4,300,000.00
10/01/20	11	4,300,000.00
10/01/21	12	4,300,000.00
10/01/22	13	4,300,000.00
10/01/23	14	4,300,000.00
10/01/24	15	4,300,000.00
10/01/25	16	4,300,000.00
10/01/26	17	4,300,000.00
10/01/27	18	4,300,000.00
10/01/28	19	4,300,000.00
10/01/29	20	4,300,000.00
10/01/30	21	4,300,000.00
10/01/31	22	4,300,000.00
10/01/32	23	4,300,000.00
10/01/33	24	4,300,000.00
10/01/34	25	4,300,000.00
10/01/35	26	4,300,000.00
10/01/36	27	4,300,000.00
10/01/37	28	4,300,000.00
10/01/38	29	4,300,000.00
10/01/39	30	4,300,000.00
Total		128,800,000.00

*Provided by the Sports and Exhibition Authority of Pittsburgh and Allegheny County.
Please see relevant sections in POS forepart for commentary and risks associated with the Special Revenues.*