



COMMONWEALTH OF PENNSYLVANIA
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December 1, 2010

VIA HAND DELIVERY

The Honorable Edward G. Rendell
GOVERNOR
Commonwealth of Pennsylvania
225 Main Capitol Building
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

Thank you for meeting with State Treasurer Rob McCord and me on November 23, 2010 to discuss your administration's plan to issue an additional one billion dollars in Commonwealth of Pennsylvania general obligation bonds. As you know, issuing new debt requires the signature of the Governor and either the Auditor General or the State Treasurer. For almost six years as Auditor General, I have signed numerous bond issuances, both to incur new debt and to refinance previous debt, in order to support important projects.

I have carefully considered your request that we, as statutory issuing officials, sign off on this significant increase in the public debt, but I must respectfully decline to do so for the following serious reservations:

First, both our state and federal government are drowning in debt. The Commonwealth's debt has increased from \$6.1 billion as of June 30, 2002 to \$8.4 billion as of November 18, 2010. This is a 39% increase in debt. The proposed bond issuance would increase our current debt load by another 12% to over \$9 billion, which, at this time, is too much to put on the backs of our children and grandchildren.

Second, paying for this debt is becoming increasingly expensive. Next year alone, debt service will consume over \$1 billion of state revenues. Borrowing another billion dollars will add at least another \$82 million in annual debt payments for the next 20 years. Money devoted to paying off debt is money that is not spent to provide programs and services to seniors, children, families, or veterans, those who government must put first in times of deep economic distress like today.

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Third, the next Governor and General Assembly will already face an increasingly challenging fiscal crisis when they take their oaths of office in 2011. The budget gap will be approximately \$4-5 billion next year, with similar elevated levels into the future depending on how the gap is addressed. Obligating another billion dollars to debt now would severely constrain the options of the new administration and legislature less than two months from now and for years to come. In addition, the unemployment rate is higher now than it has been in the previous ten years, causing a tremendous strain on the state's finances.

Finally, as your administration draws to a close, it would appear inappropriate to impose such a major constraint on the operations of your successor. As we discussed, there are at least \$300 million in proceeds from previous bond issuances still available to support projects whose funding is truly essential during this transition period. Those proceeds and project priorities must be scrutinized so that we can act in a fiscally responsible, accountable, and transparent manner.

If the Commonwealth continues to incur debt, the market might determine that the state is less creditworthy, which could lead to a downgrade in our bond ratings, causing the state to pay an even higher price for debt. That is what has happened to certain governments, like the City of Philadelphia and its various agencies, as well as the Delaware River Port Authority, which accumulated massive debt previously and are now paying for it years later.

Incurring this additional debt of \$1 billion, and entering into contracts to fund a variety of projects with less than two months remaining in your administration would further obligate the taxpayers and the next administration for additional billions. I believe that we must preserve options for the next administration and, for these reasons, I cannot in good conscience sign off on this bond issuance.

Sincerely,



JACK WAGNER
Auditor General

JW:tm

Cc: The Honorable Robert M. McCord
State Treasurer

Ms. Mary A. Soderberg
Secretary of the Budget