This Preliminary Official Statement and the information contained herein are subject to change, completion or amendment without notice. The 2014B 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 shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2014B Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or exemption under the securities laws of any jurisdiction.

**PRELIMINARY OFFICIAL STATEMENT DATED JULY 3, 2014**

**NEW ISSUE – BOOK ENTRY ONLY**

**Ratings: Moody's "A2"**
**S&P "A+"**
**Fitch "A-"**
**See "RATINGS" herein.**

*In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2014B Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the Authority with the requirements of the Internal Revenue Code of 1986, as amended. Interest on the 2014B Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax ("AMT"); however, interest on the 2014B Bonds held by certain corporations is included in the computation of "adjusted current earnings," a portion of which is taken into account in determining the AMT imposed on such corporations. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, interest on the 2014B Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the 2014B Bonds are exempt from personal property taxes in Pennsylvania. See "TAX MATTERS" herein.*

# $57,445,000*
# PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT
## Lease Revenue Refunding Bonds,
## 2014 Series B

**Dated: Date of Original Delivery** **Due: As shown on inside front cover**

The Philadelphia Authority for Industrial Development (the "Authority") is issuing its Lease Revenue Refunding Bonds, 2014 Series B (the "2014B Bonds") pursuant to (i) the provisions of the Pennsylvania Economic Development Financing Law, Act No. 102 of the General Assembly of the Commonwealth of Pennsylvania approved August 23, 1967 (P.L. 251), as amended, and as it may be amended or supplemented from time to time (the "Act"), (ii) a resolution of the Authority adopted on April 8, 2014, and (iii) a Seventh Supplemental Trust Indenture dated as of July 1, 2014 (the "Seventh Supplemental Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), supplementing the Trust Indenture dated as of April 1, 2001 (the "Original Indenture"), as amended and supplemented by six supplemental indentures (the Original Indenture, as amended by such six supplemental indentures and the Seventh Supplemental Indenture, is referred to as the "Indenture").

The 2014B Bonds are being issued to finance: (i) the current refunding of the Authority's Multi-Modal Lease Revenue Refunding Bonds, 2007 Series B-4, presently outstanding in the principal amount of $55,395,000 (the "2007B-4 Bonds"), (ii) the payment of certain costs of terminating a portion of certain swap agreements entered into in connection with the 2007B-4 Bonds, and (iii) the costs of issuing the 2014B Bonds.

The 2014B Bonds will be issued in denominations of $5,000 and any integral multiple thereof. The 2014B Bonds are issuable only as fully registered bonds without coupons. The 2014B Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository") for the 2014B Bonds. Purchasers will not receive certificates representing their ownership interest in the 2014B Bonds purchased. The principal of and interest on the 2014B Bonds are payable by the Trustee, as paying agent, to the Securities Depository, which is to remit such principal and interest to its Participants (as defined herein), which are to remit such principal and interest to the Beneficial Owners (as defined herein) of the 2014B Bonds, as described herein. (See "THE 2014B BONDS – Book-Entry Only System" herein.)

The 2014B Bonds are dated their date of original delivery and mature on the dates and in the amounts set forth on the inside front cover. Interest on the 2014B Bonds is payable on each April 1 and October 1, commencing October 1, 2014, until maturity, by wire transfer to the registered owners of the 2014B Bonds. Principal of the 2014B Bonds is payable at the designated office of the paying agent upon surrender of such 2014B Bonds. The Trustee is the initial paying agent for the 2014B Bonds.

The 2014B Bonds are not subject to redemption prior to maturity.

**The 2014B Bonds are limited obligations of the Authority payable solely out of certain of the payments made by the**

**CITY OF PHILADELPHIA**

(the "City") to the Authority under certain leases related to the stadium for the Philadelphia Eagles and the stadium for the Philadelphia Phillies, each lease dated as of April 1, 2001, as amended (collectively, the "Security Leases") between the Authority, as lessor, and the City, as lessee, and certain other funds and moneys held by the Trustee under the Indenture. Pursuant to the Indenture and except as otherwise provided therein, the Authority has assigned to the Trustee all of its right, title and interest to certain rental payments to be made by the City under the Security Leases as security for the 2014B Bonds and the other bonds issued under the Indenture. (See "SECURITY AND SOURCES OF PAYMENT FOR THE 2014B BONDS.")

**THE 2014B BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE (AS DEFINED IN THE INDENTURE) AND ARE NOT OBLIGATIONS OF THE CITY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF. NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE GENERAL CREDIT OR THE TAXING POWER OF THE CITY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THE 2014B BONDS, OR THE INTEREST THEREON OR ANY PREMIUM OR OTHER COSTS INCIDENTAL THERETO. THE AUTHORITY HAS NO TAXING POWER.**

The Authority has sought bids for a municipal bond insurance policy for the 2014B Bonds, or portions thereof. No decisions regarding such bond insurance can or will be made prior to the receipt of such bids and marketing of the 2014B Bonds.

The 2014B Bonds are offered for delivery when, as and if issued by the Authority and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approving opinions of Eckert Seamans Cherin & Mellott, LLC and Law Office of Ann C. Lebowitz, both of Philadelphia, Pennsylvania, Co-Bond Counsel. Certain legal matters will be passed upon for the Authority by Philip Brandt, Esq., Authority Counsel, Philadelphia, Pennsylvania, and for the Underwriters by Dilworth Paxson LLP and Ahmad, Zaffarese & Smyler, LLC, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the City Solicitor. It is expected that the 2014B Bonds will be available for delivery through The Depository Trust Company in New York, New York on or about July __, 2014.

**PNC Capital Markets LLC** **Ramirez & Co., Inc.**
**BofA Merrill Lynch** **Stifel**

Dated: July __, 2014

* Preliminary, subject to change

**$57,445,000***
**PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT**
**Lease Revenue Refunding Bonds**
**2014 Series B**

| Due October 1 | Principal Amount* | Interest Rate | Price | CUSIP No.† |
|---|---|---|---|---|
| 2014 | $ 1,170,000 | | | |
| 2015 | 13,555,000 | | | |
| 2016 | 13,865,000 | | | |
| 2017 | 14,235,000 | | | |
| 2018 | 14,620,000 | | | |

* Preliminary, subject to change

† The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Authority, the City or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. None of the Authority, the City or the Underwriters has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

**PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT**
**2600 Centre Square West**
**1500 Market Street**
**Philadelphia, Pennsylvania 19102**

AUTHORITY COUNSEL
Philip M. Brandt, Esquire

CO-BOND COUNSEL
Eckert Seamans Cherin & Mellott, LLC
Philadelphia, Pennsylvania

Law Office of Ann C. Lebowitz
Philadelphia, Pennsylvania

TRUSTEE AND PAYING AGENT
The Bank of New York Mellon Trust Company, N. A.
Philadelphia, Pennsylvania

CO-FINANCIAL ADVISORS
Public Financial Management, Inc.
Philadelphia, Pennsylvania

Acacia Financial Group, Inc.
Marlton, New Jersey

**THE CITY OF PHILADELPHIA, PENNSYLVANIA**

**MAYOR**
**HONORABLE MICHAEL A. NUTTER**

**MAYOR'S CHIEF OF STAFF**
Everett A. Gillison

**MAYOR'S CABINET**

Richard Negrin.....Managing Director
Rob Dubow.....Director of Finance
Shelley R. Smith.....City Solicitor
Rina Cutler..... Deputy Mayor of Transportation and Utilities
Alan Greenberger..... Deputy Mayor for Planning and Economic Development and Commerce Director
Donald F. Schwartz, M.D*. .....Deputy Mayor for Health and Opportunity and Health Commissioner
Michael DiBerardinis..... Deputy Mayor for Environmental and Community Resources
Desiree Peterkin Bell ..... Director of Communications and Strategic Partnerships/City Representative
Lori A. Shorr, Ph.D.....Chief Education Officer
Adel Ebeid ..... Chief Information Officer
Katherine Gajewski.....Director of Sustainability
Teresa A. Gillen.....Director, Federal Legislative Affairs
Eva Gladstein..... Executive Director, Mayor's Office of Community Engagement & Opportunity
Amy L. Kurland.....Inspector General
Hope Caldwell .....Chief Integrity Officer
Michael Resnick..... Director of Public Safety
Robert Murken..... Director. Legislative and Government Affairs
David G. Wilson .....First Deputy Managing Director
Maia Jachimowicz ..... Director of Policy

**CITY TREASURER**
Nancy E. Winkler

**CITY CONTROLLER**
Alan L. Butkovitz

* Effective July 15, 2014, Susan Kretsge, the current Chief of Staff of the City's Office of Health and Opportunity, will replace Dr. Schwartz as the City's Deputy Mayor for Health and Opportunity and Health Commissioner.

This Official Statement does not constitute an offer to sell, or a solicitation of an offer to buy, any of the 2014B Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. No dealer, salesperson or any other person has been authorized by the Philadelphia Authority for Industrial Development (the "Authority"), the City of Philadelphia (the "City") or the Underwriters to give any information or to make any representations, other than those contained herein, in connection with the offering of the 2014B Bonds, and, if given or made, such information or representations must not be relied upon.

This Official Statement is not to be construed as a contract or agreement among the City, the Authority, the Underwriters and the purchasers or owners of any offered 2014B Bonds. The information and the opinions expressed herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the operation or financial condition of the City or in any of the other matters referred to herein since the date hereof or the date as of which particular information is given, if earlier.

No quotations from or summaries or explanations of provisions of law and documents herein purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact.

IN CONNECTION WITH THE OFFERING OF THE 2014B BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2014B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, WITHOUT PRIOR NOTICE. THE UNDERWRITERS MAY OFFER AND SELL THE 2014B BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH, TO THE EXTENT THEY ARE NOT RECITATIONS OF HISTORICAL FACT, CONSTITUTE FORWARD-LOOKING STATEMENTS, AS SUCH TERM IS DEFINED IN SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. IN THIS RESPECT, SUCH FORWARD-LOOKING STATEMENTS ARE IDENTIFIED BY THE USE OF THE WORDS ESTIMATE, PROJECT, ANTICIPATE, EXPECT, FORECAST, INTEND OR BELIEVE OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. SUCH FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD RESULT IN THE ACTUAL INFORMATION BEING SIGNIFICANTLY DIFFERENT FROM THAT EXPRESSED IN THIS OFFICIAL STATEMENT. POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THIS OFFICIAL STATEMENT. THE CITY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT CONTAINED HEREIN TO REFLECT ANY CHANGES IN THE CITY'S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE 2014B BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 2014B BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

This Official Statement speaks only as of the date printed on the cover page hereof. This Official Statement will be made available through the Electronic Municipal Market Access System ("EMMA"), which is the sole Nationally Recognized Municipal Securities Information Repository under Securities Exchange Commission Rule 15c2-12.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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**OFFICIAL STATEMENT**

**Relating To**

**$57,445,000***
**PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT**
**Lease Revenue Refunding Bonds,**
**2014 Series B**

## INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the attached Appendices, is furnished to provide information concerning the Philadelphia Authority for Industrial Development (the "Authority") and the City of Philadelphia, Pennsylvania (the "City") in connection with the issuance by the Authority of its $57,445,000* aggregate principal amount of Philadelphia Authority for Industrial Development Lease Revenue Refunding Bonds, 2014 Series B (the "2014B Bonds"). The 2014B Bonds are dated, mature and bear interest, all as described in this Official Statement.

### The Authority

The Authority, a public instrumentality of the Commonwealth of Pennsylvania (the "Commonwealth") and a body corporate and politic, was created in 1967 pursuant to the Pennsylvania Economic Development Financing Law, Act No. 102 of the General Assembly of the Commonwealth of Pennsylvania approved August 23, 1967 (P.L. 251), as amended, and as it may be amended or supplemented from time to time (the "Act"). The Authority's address is 2600 Centre Square West, 1500 Market Street, Philadelphia, Pennsylvania 19102. See "THE AUTHORITY" herein.

### Purpose of the Issue

The Authority is issuing the 2014B Bonds at the request of the City to finance (i) the current refunding of the Authority's Multi-Modal Lease Revenue Refunding Bonds, 2007 Series B-4, presently outstanding in the principal amount of $55,395,000 (the "2007B-4 Bonds"), (ii) the payment of certain costs of terminating certain swap agreements entered into in connection with the 2007B-4 Bonds, and (iii) the costs of issuing the 2014B Bonds.

### Authorization for the 2014B Bonds

The 2014B Bonds are being issued pursuant to the provisions of (i) the Act, (ii) a resolution of the Authority adopted April 8, 2014, and (iii) a Seventh Supplemental Trust Indenture dated as of July 1, 2014 (the "Seventh Supplemental Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), supplementing the Trust Indenture dated as of April 1, 2001 (the "Original Indenture"), as amended and supplemented by six supplemental indentures (the Original Indenture, as amended by such six supplemental indentures and the Seventh Supplemental Indenture is referred to as the "Indenture").

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* Preliminary, subject to change

**Description of the 2014B Bonds**

The 2014B Bonds will be dated their date of issuance and will bear interest from such date payable on April 1 and October 1 of each year, commencing October 1, 2014 (each, an "Interest Payment Date"), until maturity. Interest on the 2014B Bonds will be computed on the basis of a 360-day year of twelve 30-day months. The 2014B Bonds will mature in the amounts and on the dates, and bear interest at the rates, set forth on the inside cover page hereof. **The 2014B Bonds are not subject to redemption prior to maturity.**

The 2014B Bonds will be issued in fully registered form in denominations of $5,000 and any integral multiple thereof. The 2014B Bonds are issuable only as fully registered bonds without coupons. The 2014B Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository") for the 2014B Bonds. Purchasers will not receive certificates representing their ownership interest in the 2014B Bonds purchased. The principal of and interest on the 2014B Bonds are payable by the Paying Agent to the Securities Depository, which is to remit such principal and interest to its Participants (as defined herein), which are to remit such principal and interest to the Beneficial Owners (as defined herein) of the 2014B Bonds, as described herein. The Trustee is acting as the initial Paying Agent for the 2014B Bonds. See "THE 2014B BONDS" herein.

**Security**

The 2014B Bonds are limited obligations of the Authority payable solely out of certain amounts, if any, available therefor under the Indenture, and certain rental payments to be made by the City, as lessee, to the Authority, as lessor, under the following leases: (i) the Eagles Prime Lease dated as of April 1, 2001 (the "Eagles Prime Lease") with respect to the Eagles Premises (defined herein); and (ii) the Phillies Prime Lease dated as of April 1, 2001, as amended (the "Phillies Prime Lease") with respect to the Phillies Premises (defined herein). Collectively, the Eagles Prime Lease and the Phillies Prime Lease, together with any other lease or sublease hereafter pledged to secure the Bonds (defined herein), shall from time to time be referred to herein as the "Security Leases." The Authority has previously issued its Fixed Rate Lease Revenue Refunding Bonds, 2007 Series A (the "2007A Bonds"), currently outstanding in the principal amount of $12,430,000, its Multi-Modal Lease Revenue Refunding Bonds, 2007 Series B-2, currently outstanding in the principal amount of $72,400,000 (the "2007B-2 Bonds"), its Multi-Modal Lease Revenue Refunding Bonds 2007 Series B-3, currently outstanding in the principal amount of $44,605,000 (the "2007B-3 Bonds") and its Lease Revenue Refunding Bonds, 2014 Series A, currently outstanding in the principal amount of $117,275,000 (the "2014A Bonds", and together with the 2007A Bonds, the 2007B-2 Bonds and the 2007B-3 Bonds, the "Prior Bonds"). The 2014B Bonds, the Prior Bonds and any future indebtedness issued under the Indenture ("Additional Bonds") are referred to collectively as the "Bonds" herein. The Bonds are secured equally and ratably under the Indenture, except as otherwise provided therein.

In order to secure the Bonds, the Authority has assigned to the Trustee certain of the rental payments to be received by it from the City under the Security Leases. The Bonds also are secured by the funds and accounts established under the Indenture (other than the Rebate Fund, the Purchase Fund and any other fund or account established hereafter and specifically excluded from the pledge of the Indenture), including all instruments and obligations in which the moneys in such funds and accounts may from time to time be invested and all interest and other investment earnings thereon and proceeds thereof. Neither the Phillies nor the Eagles are obligated to make any payments with respect to the Bonds. Additionally, pursuant to the Eagles Prime Lease, the rental payments made by the City to the Authority thereunder for the payment of the principal or redemption price of, and interest on the Bonds, are subordinate to the payment of certain rental

payments made by the City to the Authority with respect to certain operating and maintenance expenses associated with the Eagles Premises. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

**THE 2014B BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE (AS DEFINED IN THE INDENTURE) AND ARE NOT OBLIGATIONS OF THE CITY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF. NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE GENERAL CREDIT OR THE TAXING POWER OF THE CITY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THE 2014B BONDS, OR THE INTEREST THEREON OR ANY PREMIUM OR OTHER COSTS INCIDENTAL THERETO. THE AUTHORITY HAS NO TAXING POWER.**

Pursuant to, and in accordance with, the Indenture, the Authority may issue Additional Debt on parity with the Bonds pursuant to a Supplemental Indenture in one or more series, in various principal amounts, which may mature at different times, may bear interest at varying rates and may otherwise vary as provided in such Supplemental Indenture. For a further description of the conditions under which such Additional Debt may be issued, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SECURITY LEASES."

**City's Obligation to Make Lease Payments**

The City has agreed pursuant to the Security Leases to, *inter alia*, make certain rental payments to the Authority, which, together with all other available amounts therefor under the Indenture, if any, will be sufficient for the Authority to make its required payments of principal, purchase price or redemption price of, and interest on the Bonds then becoming due, whether by maturity, redemption, purchase or otherwise (other than by reason of acceleration under the Indenture). **Acceleration of the Bonds will not cause an acceleration of the rent payable by the City under the Security Leases.**

The City's rental obligations under the Security Leases shall be payable by the City only out of the current revenues of the City. The City has agreed in the Security Leases to provide for the payment of such rent and include the same in its annual operating budget for each fiscal year of the City. The City covenants in the Security Leases to make appropriations in each of its fiscal years in such amounts as shall be required to make all rental payments due and payable thereunder in each such fiscal year. If the current revenues of the City are insufficient to pay rent in any fiscal year as the same becomes due and payable, the City covenants in the Security Leases to include amounts not so paid in its operating budget for the ensuing fiscal year and to produce sufficient current revenues to pay in the ensuing fiscal year such balance due for the preceding fiscal year in addition to the amount of rent due for the ensuing fiscal year. Any provision of the Security Leases to the contrary notwithstanding, under no circumstances shall the Authority's remedies under the Security Leases include the right to cause an acceleration of all or any part of the rental payments due thereunder or the right to terminate any Security Lease.

The Security Leases also provide that the City is required to make rental payments, without suspension or abatement of any nature and that so long as, among other things, any of the Bonds remain Outstanding, the obligation of the City to make such rental payments shall be absolute and unconditional.

The City's obligations under the Security Leases to make certain rental payments are not a general obligation debt of the City within the meaning of any constitutional or statutory provision relating to the incurrence of debt by the City, and the City has not pledged its full faith and credit or taxing power for the payment of its obligations thereunder.

**Information Regarding the City of Philadelphia**

Certain information regarding the City, including relevant statutory provisions, financial information, litigation information, the relationship with the Pennsylvania Intergovernmental Cooperation Authority ("PICA"), as well as the projected ending fund balances for each year of the City's Five-Year Plan covering fiscal years 2015 through 2019, is included in APPENDIX A. APPENDIX B contains socio-economic and demographic information about the City. The City's Comprehensive Annual Financial Report for Fiscal Year 2013 is contained in APPENDIX C hereto. Certain information contained herein regarding the City is for periods prior to or subsequent to June 30, 2013. As a result, certain of the information in APPENDIX C is, at times, at variance with corresponding information concerning the City in APPENDIX A.

The City's Comprehensive Annual Financial Reports and other information about the City can be found at the City's website, www.phila.gov/investor (the "City Investor Website").

The "Terms of Use" statement of the City Investor Website, which applies to all users of the City Investor Website, provides, among other things, that the information contained therein is provided for the convenience of the user, that the City is not obligated to update such information, and that the information may not provide all information that may be of interest to investors. The information contained on the City Investor Website does not constitute an offer to buy or sell securities, nor is it a solicitation therefor. The information contained on the City Investor Website is not incorporated by reference in this Official Statement and persons considering a purchase of the 2014B Bonds should rely only on information contained in this Official Statement or incorporated by reference herein.

**Bond Insurance**

The 2014B Bonds, or a portion thereof, may or may not be issued with bond insurance, and the decision whether to use bond insurance on the 2014B Bonds, or a portion thereof, will be subject to market conditions at the time of pricing of the 2014B Bonds.

**Miscellaneous**

Brief descriptions of the 2014B Bonds, the security therefor, the Indenture and the Security Leases are included herein. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture and the Security Leases and other documents are qualified in their entirety by reference to each such document. The attached Appendices are integral parts of this Official Statement and should be read in their entirety together with the foregoing statements. Copies of such documents are available at the office of the Trustee located in Philadelphia, Pennsylvania. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SECURITY LEASES".

APPENDIX E contains the proposed forms of the opinions of Co-Bond Counsel. APPENDIX F contains the form of Continuing Disclosure Agreement with respect to the 2014B Bonds.

This Official Statement speaks only as of the date printed on the cover hereof. The information contained herein is subject to change. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. No representation is made that any of the opinions or estimates will be realized. This Official Statement will be made available through the Electronic Municipal Market Access System maintained by the Municipal Securities Rulemaking Board.

## THE AUTHORITY

### Organization

The Authority is a public instrumentality of the Commonwealth and a body corporate and politic, created pursuant to the Act for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning, financing and leasing, either in the capacity of lessor or lessee, industrial, commercial or specialized development projects, all as permitted under the Act. A Certificate of Incorporation was issued to the Authority by the Secretary of the Commonwealth on December 27, 1967. An Amended Certificate of Incorporation, extending the term of existence of the Authority, was issued on September 21, 2011. The Authority's existence will continue for 50 years from September 21, 2011.

### Board of Authority

The governing body of the Authority is a board consisting of five members appointed by the Mayor of the City. Members of the Authority's board serve at the pleasure of the Mayor. The following persons are the present members and officers of the Authority:

| Name | Position |
|---|---|
| Thomas A. K. Queenan | Chairman |
| Leslie Anne Miller, Esq. | Vice Chairman |
| Evelyn F. Smalls | Treasurer |
| David L. Hyman, Esq. | Member |
| Harold B. Yaffe, DDS | Member |
| Paul J. Deegan* | Secretary |
| Terry A. DeMusis* | Assistant Secretary |

* Non-Member

### Financing Program of the Authority

The Authority has a number of special obligation bond and note issues outstanding and may issue others from time to time. Each such issue is payable solely from revenues derived from the project being financed, from special funds established therefor or from other financing arrangements. Each issue is separately secured, and is separate and independent from the 2014B Bonds as to sources of payment and security.

The 2014B Bonds are payable solely from the funds pledged under the Indenture, and other obligations issued by the Authority are payable solely from funds specifically pledged for the payment of such other obligations. Accordingly, a default on another issue of obligations issued by the Authority would not constitute a default on the 2014B Bonds. The Authority has experienced defaults with respect to certain obligations issued by it, by reason of nonpayment of debt service by the party receiving financing through the Authority. The Authority may from time to time enter into further financing transactions with other entities in connection with other projects. Such transactions will provide for the issuance of bonds or notes to be secured by separate sources of revenues or other security.

In addition to its financing activities and as part of its economic development activities for the City, the Authority owns and manages certain industrial and commercial parks in the City. The City transferred to the Authority legal title to certain vacant land available for development in several industrial parks. The Authority also holds title to, and is the developer of, certain other real property in the City, including

substantially all of the land and buildings comprising the Philadelphia Naval Business Center, which represents the largest portion of the former Philadelphia Naval Shipyard previously owned and operated by the United States of America.

ALTHOUGH THE AUTHORITY HAS EXECUTED THIS OFFICIAL STATEMENT AND AUTHORIZED ITS DISTRIBUTION, THE AUTHORITY IS NOT RESPONSIBLE FOR AND DOES NOT REPRESENT OR WARRANT IN ANY WAY THE ACCURACY OR COMPLETENESS OF ANY INFORMATION OR ANY STATEMENTS MADE HEREIN, EXCEPT THE INFORMATION AND STATEMENTS SET FORTH UNDER THE HEADINGS "INTRODUCTORY STATEMENT – THE AUTHORITY," "THE AUTHORITY" AND "LITIGATION—THE AUTHORITY". ACCORDINGLY, EXCEPT AS AFORESAID, THE AUTHORITY DISCLAIMS RESPONSIBILITY FOR THE DISCLOSURE SET FORTH HEREIN MADE IN CONNECTION WITH THE SALE AND DISTRIBUTION OF THE 2014B BONDS OR OTHERWISE.

## THE 2014B BONDS

### General

The 2014B Bonds are being issued by the Authority under the Act and pursuant to the Indenture and will be dated the date of issuance. The 2014B Bonds will bear interest from such date payable on April 1 and October 1 of each year (each, an "Interest Payment Date"), commencing October 1, 2014, until maturity. The 2014B Bonds will mature in the amounts and on the dates, and bear interest at the rates, set forth on the inside cover page hereof. Interest on the 2014B Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

The 2014B Bonds will be issued in fully registered form in the denominations of $5,000 and any integral multiple thereof. The 2014B Bonds will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the 2014B Bonds. So long as the 2014B Bonds are held in DTC's book-entry only system, DTC (or a successor securities depository) or its nominee will be the registered owner of the 2014B Bonds for all purposes of the Indenture, the 2014B Bonds and this Official Statement, and payments of principal, interest and premium, if any, with respect to the 2014B Bonds will be made solely through the facilities of DTC. See "Book-Entry Only System" herein.

Unless otherwise provided in any writing with or from DTC, the interest on the 2014B Bonds shall be paid by the Paying Agent on each Interest Payment Date by wire transfer of immediately available funds to an account specified by the registered owner in a writing delivered to the Paying Agent. Any such specified account shall remain in effect until revised by such registered owner by an instrument in writing delivered to the Paying Agent. Unless otherwise agreed to by the Authority and the Paying Agent, the principal of and premium, if any, on each 2014B Bond shall be payable upon surrender thereof at the Payment Office of the Paying Agent.

The Trustee is the initial Paying Agent for the 2014B Bonds. The interest on the 2014B Bonds will be paid mailed by the Paying Agent to the registered owners at their addresses as they appear in the registry books of the Trustee as of the Record Date, which, shall be the fifteenth ($15^{th}$) day (whether or not a business day) of the month preceding the Interest Payment Date.

If sufficient funds for the payment of interest becoming due on any Interest Payment Date are not on deposit with the Trustee on such date, the interest so becoming due shall cease to be payable to the registered owners otherwise entitled thereto as of such date. If sufficient funds thereafter become available for the payment of such overdue interest, the Trustee shall establish a special interest payment date (any such date being referred to as a "Special Interest Payment Date") on which such overdue interest shall be paid and a

special record date relating thereto (any such date being referred to as a "Special Record Date"), and shall mail a notice of each such date to the registered owners of the 2014B Bonds at least 10 days prior to the Special Record Date, but not more than 30 days prior to the Special Interest Payment Date.

If any 2014B Bond is mutilated, lost, stolen or destroyed, upon satisfaction of the conditions set forth in the Indenture, the Authority shall execute and the Trustee shall authenticate and deliver a new 2014B Bond of like tenor and denomination. The Authority and the Trustee may require indemnification against any and all claims arising out of the issuance of substitute 2014B Bonds.

The Indenture and all provisions thereof are incorporated by reference in the text of the 2014B Bonds, and the 2014B Bonds provide that each registered owner, Beneficial Owner, DTC Participant or Indirect Participant (as such terms are hereinafter defined) in DTC, by acceptance of a 2014B Bond (including receipt of a book-entry credit evidencing an interest therein) assents to all of such provisions as an explicit and material portion of the consideration running to the Authority to induce it to issue such 2014B Bond.

**Book-Entry Only System**

*The following information concerning DTC and DTC's book-entry only system has been obtained from DTC. The Authority, the City, the Trustee and the Underwriters make no representation as to the accuracy of such information.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2014B Bonds. The 2014B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2014B Bond certificate will be issued in the aggregate principal amount of each maturity of the 2014B Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U. S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2014B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2014B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2014B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2014B Bonds, except in the event that use of the book-entry system for the 2014B Bonds is discontinued.

To facilitate subsequent transfers, all 2014B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2014B Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2014B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2014B Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2014B Bonds, such as defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2014B Bonds may wish to ascertain that the nominee holding the 2014B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2014B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer or its agent 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 2014B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, of premium, if any, and of interest on the 2014B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2014B Bonds at any time by giving reasonable written notice to the Authority or the Trustee. Under such circumstances, in

the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the City believe to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters, the Trustee, the Authority or the City.

NONE OF THE AUTHORITY, THE CITY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR: (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DIRECT PARTICIPANT, OR BY ANY DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF, OR INTEREST ON BOOK-ENTRY 2014B BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DIRECT PARTICIPANT, OR BY ANY DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN OWNERS OF BOOK-ENTRY 2014B BONDS; OR (5) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BOOK-ENTRY 2014B BONDS.

In the event that the Book-Entry Only System is discontinued and the Beneficial Owners become registered owners of the 2014B Bonds, the 2014B Bonds will be transferable in accordance with the provisions of the Indenture.

## SWAP AGREEMENTS

The Authority entered into separate interest rate swap agreements in connection with the 2007B-2 Bonds, the 2007B-3 Bonds and the 2014A Bonds (collectively, the "Prior Bonds Swap Agreements") with JPMorgan Chase Bank, National Association ("JPMorgan") and Merrill Lynch Capital Services, Inc. ("MCLS" and, together with JPMorgan, the "Counterparties"), pursuant to which the Authority makes periodic fixed rate payments to the Counterparties and the Counterparties make periodic floating rate payments to the Authority. The Prior Bonds Swap Agreements are subject to termination prior to their scheduled termination dates by either party under a number of circumstances. Such early termination could result in either a payment from the Authority to the Counterparties or from the Counterparties to the Authority depending on market conditions at the time of early termination. Payment obligations under the Prior Bonds Swap Agreements are subordinate in security and prior of payment to the Bonds. Please see APPENDIX A for information relating to the current mark-to-market value of the Prior Bonds Swap Agreements.

## PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2014B Bonds will be used to finance ( i) the current refunding of the 2007B-4 Bonds, presently outstanding in the principal amount of $55,395,000, (ii) the payment of certain costs of

terminating a portion of certain swap agreements entered into in connection with the 2007B-4 Bonds, and (iii) the costs of issuing the 2014B Bonds.

**Sources of Funds:**

Principal amount of 2014B Bonds
Total Sources

**Uses of Funds:**

Current refunding of the 2007B-4 Bonds
Swap termination payments
Costs of Issuance*
Total Uses

*Includes Underwriters' discount, legal fees, printing, rating agency fees, trustee fees and others expenses of the offering, and a rounding amount.

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## ESTIMATED PRO FORMA ANNUAL DEBT SERVICE REQUIREMENTS

Set forth below is the schedule of estimated yearly debt service due on the Bonds, including the 2014B Bonds, outstanding as of the date of this Official Statement in each fiscal year ending June 30.

| | 2007A Bonds | | 2007B-2 Bonds, 2007B-3 Bonds and 2014A Bonds | | 2014B Bonds | | Aggregate Debt Service |
|---|---|---|---|---|---|---|---|
| Year Ending June 30 | Principal | Interest | Principal | Interest[2] | Principal | Interest | |
| 2015 | $12,430,000 | $300,906 | $ 0 | $ 8,944,282 | | | |
| 2016 | 0 | 0 | 0 | 8,895,492 | | | |
| 2017 | 0 | 0 | 0 | 8,895,492 | | | |
| 2018 | 0 | 0 | 0 | 8,895,492 | | | |
| 2019 | 0 | 0 | 0 | 8,895,492 | | | |
| 2020 | 0 | 0 | 15,355,000 | 8,603,988 | | | |
| 2021 | 0 | 0 | 16,015,000 | 8,008,448 | | | |
| 2022 | 0 | 0 | 16,695,000 | 7,387,468 | | | |
| 2023 | 0 | 0 | 17,405,000 | 6,740,097 | | | |
| 2024 | 0 | 0 | 18,150,000 | 6,065,107 | | | |
| 2025 | 0 | 0 | 18,925,000 | 5,361,258 | | | |
| 2026 | 0 | 0 | 19,730,000 | 4,627,403 | | | |
| 2027 | 0 | 0 | 20,570,000 | 3,862,313 | | | |
| 2028 | 0 | 0 | 21,445,000 | 3,064,666 | | | |
| 2029 | 0 | 0 | 22,365,000 | 2,232,935 | | | |
| 2030 | 0 | 0 | 23,315,000 | 1,365,692 | | | |
| 2031 | 0 | 0 | 24,310,000 | 461,526 | | | |
| Total[1] | $12,430,000 | $300,906 | $234,280,000 | $102,307,151 | | | |

(1) Numbers may not add due to rounding.

(2) Amounts shown in this column assume a "synthetic fixed rate" of interest, calculated on a semi-annual basis with a 30/360 day count. The Authority issued the 2007B-2 Bonds, the 2007B-3 Bonds and the 2014A Bonds as variable rate demand obligations and entered into the Prior Bonds Swap Agreements with the Counterparties, pursuant to which the Counterparties are required to pay an amount based on the SIFMA Index or 70% of one-month LIBOR, and the Authority is required to pay the fixed rate set forth in the Prior Bonds Swap Agreements. The Authority is responsible for all interest on the 2007B-2 Bonds, the 2007B-3 Bonds and the 2014A Bonds in excess of the amounts paid by the Counterparties.

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## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds, including the 2014B Bonds, are limited obligations of the Authority and are payable solely from certain rental payments to be made by the City, as lessee, to the Authority, as lessor, under the Security Leases and certain amounts available therefor under the Indenture, if any. The Security Leases consist of: (i) the Eagles Prime Lease, pursuant to which the City has leased from the Authority a parcel of land in connection with the development of a football stadium (known as Lincoln Financial Field) constructed on such parcel, together with the improvements thereon, including the football stadium (the "Eagles Premises"); and (ii) the Phillies Prime Lease, pursuant to which the City has leased from the Authority certain parcels of land in connection with the development of a baseball park (known as Citizens Bank Park) constructed on such parcels, together with the improvements thereon, including the baseball park (the "Phillies Premises"). The Bonds, including the 2014B Bonds, are also secured by the funds and accounts established under the Indenture (other than the Rebate Fund, and any other fund or account now existing or established hereafter and specifically excluded from the pledge of the Indenture) including all instruments and obligations in which the moneys in such pledged funds and accounts may from time to time be invested and all interest and other investment earnings thereon and proceeds thereof. Neither the Phillies nor the Eagles are obligated to make any payments with respect to the Bonds, including the 2014B Bonds. Additionally, pursuant to the Eagles Prime Lease, the rental payments made by the City to the Authority thereunder for the payment of the principal or redemption price of, and interest on the Bonds, including the 2014B Bonds, are subordinate to the payment of certain rental payments made by the City to the Authority with respect to certain operating and maintenance expenses associated with the Eagles Premises.

In order to secure the payment of the principal or redemption price of and interest on the Bonds, including the 2014B Bonds, the obligations under any swaps entered into by the Authority in respect of Bonds (on a subordinate basis) and the performance and observance by the Authority of all of the covenants, express or implied in the Indenture and the Bonds, the Authority, pursuant to the Indenture, has assigned to the Trustee: (i) the rights, title and interest of the Authority to certain rental payments under the Eagles Prime Lease and the Phillies Prime Lease (excepting the right to certain amounts payable to the Authority for insurance premiums and any rebate liability, and certain fees, expenses and indemnities payable thereunder as set forth in the Indenture) and the rights and remedies associated with such payments, and (ii) all funds and accounts established under the Indenture (other than the Rebate Fund, and any other fund or account now existing or established hereafter and specifically excluded from the pledge of the Indenture), and investment earnings thereon, subject to disbursements from such fund or account in accordance with the Security Leases and the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SECURITY LEASES" in APPENDIX D hereto.

The City has agreed in the Security Leases, to, *inter alia*, make certain rental payments to the Authority, which, together with all other available amounts therefor under the Indenture, if any, will be sufficient for the Authority to make its required payments of principal or redemption price of, and interest on the Bonds, including the 2014B Bonds, then becoming due, whether by maturity, redemption or otherwise (other than by reason of acceleration under the Indenture) and any payments due under any swaps entered into by the Authority in respect of the Bonds. **Acceleration of the Bonds will not cause an acceleration of the rent payable by the City under the Security Leases.**

The City's rental obligations under the Security Leases will be payable only out of current revenues of the City. The City has agreed in the Security Leases to provide for payment of such rent and include the same in the City's annual operating budget for each fiscal year of the City. The City covenants in the Security Leases to make appropriations in each of its fiscal years in such amounts as shall be required to make all rental payments due and payable thereunder in each such fiscal year. If the current revenues of the City are insufficient to pay rent in any fiscal year as the same becomes due and payable, the City covenants in the Security Leases to include amounts not so paid in the City's operating budget for the ensuing fiscal year and

shall produce sufficient current revenues to pay in the ensuing fiscal year such balance due for the preceding fiscal year in addition to the amount of rent due for the ensuing fiscal year. Any provision of the Security Leases to the contrary notwithstanding, under no circumstances shall the Authority's remedies under the Security Leases include the right to cause an acceleration of all or any part of the City's rental payments thereunder or the right to terminate any Security Lease.

The Security Leases provide that so long as, among other things, any of the Bonds remain Outstanding, notwithstanding that all or any part of the premises leased thereunder shall have been wholly or partially destroyed, damaged or injured, and shall not have been repaired, replaced or rebuilt, the obligation of the City to pay rentals shall be absolute and unconditional and shall not be suspended, abated, reduced, abrogated, waived, diminished or otherwise modified in any manner or to any extent whatsoever, regardless of any rights of setoff, recoupment or counterclaim that the City might otherwise have against the Authority or the Trustee or any other party or parties and regardless of any contingency, act of God, event or cause whatsoever and notwithstanding any circumstances or occurrence that may arise or take place after the date of the Security Leases.

### Additional Debt

In accordance with the provisions of the Indenture, the Authority may issue Additional Debt from time to time pursuant to a Supplemental Indenture, which Additional Debt shall be on parity with the Bonds, including the 2014B Bonds, except as provided in the Indenture or a Supplemental Indenture and may be issued in one or more series and in various principal amounts, and may bear interest at different rates and otherwise may vary as provided in the Indenture and such Supplemental Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SECURITY LEASES" in APPENDIX D hereto.

## LITIGATION

### The Authority

There is no litigation pending or, to the knowledge of the officers of the Authority, threatened, against the Authority, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2014B Bonds, or in any way contesting or affecting the validity of the 2014B Bonds or any proceedings of the Authority with respect to the issuance and sale thereof, or the pledge or application of any money or security provided for the payment of the 2014B Bonds or the existence of the Authority, or any of the transactions contemplated by the 2014B Bonds, the Indenture or the Security Leases.

### The City

Upon delivery of the 2014B Bonds, the City Law Department (the "Law Department") shall furnish an opinion to the effect, among other things, that, except for litigation which in the opinion of the Law Department is without merit and except as disclosed in the Official Statement, there is no litigation or other legal proceeding pending in any court or, to the best of its knowledge after inquiry, threatened in writing (i) seeking to restrain or enjoin the issuance, delivery or sale of the 2014B Bonds or the performance of the City's obligations under the Security Leases or the exercise of rights and performance of obligations of the City under the 2014B Bonds or the Security Leases, or the Authority's pledge or application of any monies or security provided for the payment of the 2014B Bonds, (ii) in which a final unfavorable decision can reasonably be anticipated which would materially and adversely affect the performance by the City of its obligations under the Security Leases or the financial condition or operations of the City as a whole, or (iii) in any way contesting the validity or enforceability of the 2014B Bonds, or the Security Leases, or the transactions contemplated thereby.

See "CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION – Litigation" in APPENDIX A hereto for a discussion of litigation concerning the City.

## RATINGS

Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings have assigned their municipal bond ratings of "A2" (stable outlook), "A+" (stable outlook), and "A-" (stable outlook), respectively, to the 2014B Bonds.

A rating is not a recommendation to buy, sell or hold securities. An explanation of the significance of each of such ratings may only be obtained from the rating agency furnishing the same. There is no assurance that any of such ratings will be maintained for any given period of time or that it may not be raised, lowered or withdrawn entirely, if in a rating agency's judgment circumstances so warrant. Any downward change in or withdrawal of any such rating may have an adverse effect on the price at which the 2014B Bonds may be resold. Neither the Authority nor the Underwriters have assumed any responsibility to advise the registered owners or Beneficial Owners of the 2014B Bonds of any change in any rating on the 2014B Bonds, and none of the Authority, the City and the Underwriters has undertaken any responsibility to maintain any particular rating on the 2014B Bonds. The City has agreed in the Continuing Disclosure Agreement to report actual rating changes on the 2014B Bonds. See "CONTINUING DISCLOSURE" herein and APPENDIX F hereto.

## LEGAL MATTERS

Certain legal matters incident to the authorization, issuance, sale and delivery of the 2014B Bonds will be passed upon by Eckert Seamans Cherin & Mellott, LLC and Law Office of Ann C. Lebowitz, both of Philadelphia, Pennsylvania, Co-Bond Counsel. The approving opinions of Co-Bond Counsel will be in substantially the forms attached to this Official Statement as APPENDIX E – "PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL." Certain legal matters concerning the Authority will be passed on for the Authority by Philip M. Brandt, Esq., Authority Counsel, Philadelphia, Pennsylvania, and for the Underwriters, by their co-counsel, Dilworth Paxson LLP and Ahmad, Zaffarese & Smyler, LLC, both of Philadelphia, Pennsylvania. Certain legal matters with respect to the obligations of the City under the Security Leases will be passed upon by the City Solicitor.

## TAX MATTERS

### Federal

*Exclusion of Interest from Gross Income*

In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2014B Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the Authority with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the 2014B Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax ("AMT"); however, interest on the 2014B Bonds held by certain corporations is included in the computation of "adjusted current earnings," a portion of which is taken into account in determining the AMT imposed on such corporations.

In rendering its opinion, Co-Bond Counsel has assumed compliance by the Authority with the covenants contained in the Indenture and that the Authority and the City comply with their respective covenants and representations contained in the Tax Compliance Agreement that are intended to comply with the provisions of the Code relating to actions to be taken by the Authority in respect of the 2014B Bonds after issuance thereof to the extent necessary to effect or maintain the exclusion from federal gross income of the

interest on the 2014B Bonds. These covenants relate to, inter alia, the use of and investment of proceeds of the 2014B Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in interest on the 2014B Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the 2014B Bonds.

*Other Federal Tax Matters*

Ownership or disposition of the 2014B Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, taxpayers who have an initial basis in the 2014B Bonds greater or less than the principal amount thereof, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the 2014B Bonds.

**Co-Bond Counsel is not rendering any opinion as to any federal tax matters other than those described under the caption "Exclusion of Interest from Gross Income" and expressly stated in the form of the opinions of Co-Bond Counsel included as APPENDIX E hereto. Prospective purchasers of the 2014B Bonds should consult their independent tax advisors with regard to all federal tax matters.**

**Pennsylvania**

In the opinion of Co-Bond Counsel, under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, interest on the 2014B Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the 2014B Bonds are exempt from personal property taxes in Pennsylvania; however, under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, any profits, gains or income derived from the sale, exchange or other disposition of the 2014B Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth of Pennsylvania.

**Other**

The 2014B Bonds and interest thereon may be subject to state and local taxes in jurisdictions other than the Commonwealth of Pennsylvania under applicable state or local tax laws.

**Purchasers of the 2014B Bonds should consult their independent tax advisors with regard to all state and local tax matters.**

## UNDERWRITING

The 2014B Bonds are being purchased by the Underwriters named on the cover page hereof (the "Underwriters"), for whom PNC Capital Markets LLC is acting as representative (the "Representative"), subject to certain terms and conditions set forth in a Bond Purchase Agreement between the Authority and the Underwriters, at a purchase price of $_____, representing the aggregate principal amount of the 2014B Bonds of $_____, [plus net original issue premium] of $_____, less an Underwriters' discount of $_____). Pursuant to the Bond Purchase Agreement, the Underwriters will be obligated to purchase all of the 2014B Bonds if any of such 2014B Bonds are purchased. The 2014B Bonds are offered for sale to the public at prices set forth on the inside front cover page of this Official Statement. The 2014B Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing 2014B Bonds into investment trusts) at prices lower than such offering prices, and such public offering prices may be changed from time to time by the Underwriters without prior notice.

## FINANCIAL ADVISORS

Public Financial Management, Inc., Philadelphia, Pennsylvania and Acacia Financial Group, Inc., Marlton, New Jersey are acting as co-financial advisors (the "Financial Advisors") to the City and the Authority in respect to the sale of the 2014B Bonds. The Financial Advisors have assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the 2014B Bonds. They have received and reviewed but have not independently verified information in this Official Statement for accuracy or completeness (except, as to each Financial Advisor, the information in this section). Investors should not draw any conclusions as to the suitability of the 2014B Bonds from, or base any investment decisions upon, the fact that the Financial Advisors have advised the City and the Authority with respect to the 2014B Bonds. The Financial Advisors' fees for this issue are contingent upon the sale and issuance of the 2014B Bonds.

The Financial Advisors are financial advisory and consulting organizations and not organizations engaged in the business of underwriting, marketing or trading of municipal securities or any other negotiable instruments.

## LIMITATIONS OF RIGHTS AND REMEDIES UNDER FEDERAL BANKRUPTCY CODE

The rights and remedies of registered owners of the 2014B Bonds may be subject to the provisions of the United States Bankruptcy Code, which permits, under prescribed circumstances, a public agency or instrumentality of a state to file a petition for relief, in the nature of an adjustment in the repayment of debts, in a bankruptcy court of the United States, to other reorganization and insolvency proceedings, and to general principles of equity, whether asserted in a proceeding at law or in equity.

The Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, Act No. 1991-6, approved June 5, 1991 (the "PICA Act"), prohibits the City from filing a petition for relief under Chapter 9 of the United States Bankruptcy Code as long as PICA has outstanding any bonds issued pursuant to the PICA Act. As of the close of business on June 30, 2014, the principal amount of PICA bonds outstanding was $363,640,000. If no such bonds were outstanding, the PICA Act requires approval in writing by the Governor of the Commonwealth for a filing under Chapter 9 by the City. If the provisions of the PICA Act relating to the authorization by the Governor for the City to file a petition under Chapter 9 of the United States Bankruptcy Code were invoked, such provisions could limit the enforcement of the rights and remedies of the registered owners or Beneficial Owners of the 2014B Bonds. See "SUMMARY FINANCIAL INFORMATION — Pennsylvania Intergovernmental Cooperation Authority" and "DEBT OF THE CITY — PICA Bonds" in APPENDIX A hereto.

## CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12 of the Securities and Exchange Commission, the City will enter into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C., as dissemination agent, which will constitute a written undertaking for the benefit of the registered owners and Beneficial Owners of the 2014B Bonds. The proposed form of the Continuing Disclosure Agreement is attached hereto as APPENDIX F. The City has complied with its continuing disclosure undertakings for each of the past five (5) years, except that the City did not file: (i) until June 26, 2013, notice of a downgrade in September 2010 by Moody's Investor Services, Inc. of certain of the City's variable rate bonds (related to changes in the credit quality of the banks then providing credit and liquidity support for such bonds); (ii) until July 9, 2013, notice of an upgrade of the underlying credit rating in April 2012 by Standard & Poor's Ratings Services of a series of bonds issued by the Philadelphia Municipal Authority on behalf of the City; and (iii) until July 9, 2013, notice of a downgrade of the credit rating in November 2011 by Standard & Poor's Ratings Services of the insurer of certain of the City's bonds.

A default under such Continuing Disclosure Agreement shall not be deemed to be a default under the Indenture or the Security Leases.

## CERTAIN RELATIONSHIPS

Eckert Seamans Cherin & Mellott, LLC represents the City in certain matters unrelated to this financing. The Law Office of Ann C. Lebowitz provides ongoing legal services to the City.

Dilworth Paxson LLP represents the City in matters unrelated to this financing. Ahmad, Zaffarese & Smyler, LLC represents the City in matters unrelated to this financing.

## MISCELLANEOUS

This Official Statement is made available only in connection with the sale of the 2014B Bonds and may not be used in whole or in part for any other purpose. This Official Statement is not to be construed as a contract or agreement between the Authority, the City, the Underwriters and the purchasers or owners of any of the 2014B Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. No representation is made that any opinions or estimates herein will be realized. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

The attached Appendices are integral parts of this Official Statement and should be read in their entirety.

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The City makes no representations or warranties as to the accuracy or timeliness of any other information available on the City Investor Website or any other website maintained by the City nor any hyperlinks referenced therein.

The execution and distribution of this Official Statement have been duly authorized by the Authority and approved by the City.

**PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT**

By: _____
Chairman

Approved:

**CITY OF PHILADELPHIA**

By: _____
Director of Finance

# APPENDIX A

## CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION

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## APPENDIX A

## GOVERNMENT AND FINANCIAL INFORMATION

## THE GOVERNMENT OF THE CITY OF PHILADELPHIA

### General

The City of Philadelphia, Pennsylvania (the "City" or "Philadelphia"), was incorporated in 1789 by an Act of the General Assembly of the Commonwealth of Pennsylvania (the "Commonwealth" or "State") (predecessors of the City under charters granted by William Penn in his capacity as proprietor of the colony of Pennsylvania may date to as early as 1684). In 1854, the General Assembly of the Commonwealth, by an act commonly referred to as the Consolidation Act, made the City's boundaries coterminous with the boundaries of Philadelphia County (the same boundaries that exist today) (the "County"), abolished all governments within these boundaries other than the City and the County and consolidated the legislative functions of the City and the County. Article 9, Section 13 of the Pennsylvania Constitution abolished all county offices in the City and provides that the City performs all functions of county government and that laws applicable to counties apply to the City.

Since 1952, the City has been governed under a Home Rule Charter authorized by the General Assembly of the Commonwealth (First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, Section 17) and adopted by the voters of the City. The Home Rule Charter, as amended and supplemented to this date, provides, among other things, for the election, organization, powers and duties of the legislative branch (the "City Council"); the election, organization, powers and duties of the executive and administrative branch; and the basic rules governing the City's fiscal and budgetary matters, contracts, procurement, property and records. The Home Rule Charter, as amended, pursuant to the First Class City Home Rule Education Act, also provides for the governance of The School District of Philadelphia (the "School District") as a separate and independent home rule school district. Certain other constitutional provisions and Commonwealth statutes continue to govern various aspects of the City's affairs, notwithstanding the broad grant of powers of local self-government in relation to municipal functions set forth in the First Class City Home Rule Act.

Under the Home Rule Charter, as currently in effect, there are two principal governmental entities in the City: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education.

The court system in the City, consisting of Common Pleas and Municipal Courts, is part of the Commonwealth judicial system. Although judges are paid by the Commonwealth, most other court costs are paid by the City, with partial reimbursement from the Commonwealth.

### Elected and Appointed Officials

The Mayor is elected for a term of four years and is eligible to succeed himself for one term. Each of the seventeen members of the City Council is also elected for a four-year term which runs concurrently with that of the Mayor. There is no limitation on the number of terms that may be served by members of the City Council. Of the members of the City Council, ten are elected from districts and seven are elected at-large, with a minimum of two of the seven representing a party or parties other than the majority party. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

The City Controller's responsibilities derive from the Home Rule Charter, various City ordinances and state and federal statutes, and contractual arrangements with auditees. The City Controller must follow Generally Accepted Government Auditing Standards ("GAGAS") established by the federal Government Accountability Office (formerly known as the General Accounting Office), and GAAS, Generally Accepted Auditing Standards promulgated by the American Institute of Certified Public Accountants. As of March 21, 2014, the Office of the City

Controller had 114 full time employees, 1 part time employee, and 2 interns for a total of 117 on staff. This includes 61 auditors, 23 of whom are certified public accountants.

The City Controller post-audits and reports on the City's and the School District's Comprehensive Annual Financial Reports, federal assistance received by the City and the performance of City departments. The City Controller also conducts a pre-audit program of City expenditure documents required to be submitted for approval, such as invoices, payment vouchers, purchase orders and contracts. Documents are selected for audit by category and statistical basis. The Pre-Audit Division verifies that expenditures are authorized and accurate in accordance with the Home Rule Charter and other pertinent legal and contractual requirements before any moneys are paid by the City Treasurer. The Pre-Audit Technical Unit, consisting of auditing and engineering staff, inspects and audits capital project design, construction and related expenditures. Other responsibilities of the City Controller include investigation of allegations of fraud, preparation of economic reports, certification of the City's debt capacity and the capital nature and useful life of the capital projects, and opining to the Pennsylvania Intergovernmental Cooperation Authority ("PICA") on the reasonableness of the assumptions and estimates in the City's five-year financial plans.

The principal officers of the City's government appointed by the Mayor are the Managing Director of the City (the "Managing Director"), the Director of Finance of the City (the "Director of Finance"), the City Solicitor (the "City Solicitor"), the Deputy Mayor for Planning and Economic Development and Director of Commerce (the "Director of Commerce") and the Director of Communications and Strategic Partnerships & City Representative (the "City Representative"). These officials, together with the Mayor and the other members of the Mayor's cabinet, constitute the major policy-making group in the City's government.

The Managing Director, in coordination with the Deputy Mayors for Public Safety, Health and Opportunity, Transportation and Utilities, Economic Development and Environmental and Community Resources, and the Director of Commerce, is responsible for supervising the operating departments and agencies of the City that render the City's various municipal services. The Director of Commerce is charged with the responsibility of promoting and developing commerce and industry. The City Representative is the Ceremonial Representative of the City and especially of the Mayor. The City Representative is charged with the responsibility of giving wide publicity to any items of interest reflecting the activities of the City and its inhabitants, and for the marketing and promotion of the image of the City.

The City Solicitor is head of the Law Department and acts as legal advisor to the Mayor, the City Council, and all of the agencies of the City government. The City Solicitor is also responsible for all of the City's contracts and bonds, for assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction in City Council, and for the conduct of litigation involving the City.

The Director of Finance is the chief financial and budget officer of the City and is selected from three names submitted to the Mayor by a Finance Panel. The Director of Finance is responsible for the financial functions of the City including development of the annual operating budget, the capital budget, and capital program; the City's program for temporary and long-term borrowing; supervision of the operating budget's execution; the collection of revenues through the Department of Revenue; and the oversight of pension administration as Chairperson of the Board of Pensions and Retirement. The Director of Finance is also responsible for the appointment and supervision of the City Treasurer, whose office manages the City's debt program and serves as the disbursing agent for the distribution of checks and electronic payments from the City Treasury and the management of cash resources.

The following are brief biographies of Mayor Nutter, his Chief of Staff, the Director of Finance and the City Treasurer:

**Michael A. Nutter, Mayor**, was sworn in for a second term on January 2, 2012 as Mayor of his hometown. Since then, Mayor Nutter has set an aggressive agenda for America's fifth largest city – devising the City's innovative school reform strategy, vowing to strengthen community policing through Philly Rising, a unique partnership between vulnerable neighborhoods and the City, and continuing to implement the nationally recognized GreenWorks Philadelphia initiative that is helping to make the City of Philadelphia become the greenest city in America. Since taking office in January 2008, Mayor Nutter has vigorously managed city government through the worst recession since the Great Depression by maintaining core services and reducing the City's spending – most

notably closing a $2.4 billion gap in Philadelphia's five year plan without eliminating a single police officer, fire fighter, sanitation, or health center worker. Under Mayor Nutter, municipal government has reduced energy usage by seven percent and increased alternative energy usage citywide from 2.5 to 14 percent. In June 2013, City Council passed Mayor Nutter's Actual Value Initiative, the City's first property assessment system overhaul, which is designed to make it a more fair, accurate and understandable system.

In June 2013, Mayor Nutter concluded his year-long tenure as President of the United States Conference of Mayors, which is the official non-partisan organization of almost 1,300 U.S. cities with populations of 30,000 or more. As President, Mayor Nutter represented the Conference by promoting the development of effective national urban/suburban policy; strengthening federal-city relationships; and ensuring that federal policy meets urban needs.

Following the December 14, 2012 shooting at Sandy Hook Elementary School, and responding to a lack of congressional action addressing gun violence, Mayor Nutter launched the Sandy Hook Principles, a corporate code of conduct designed to encourage responsible behavior among businesses involved with the gun manufacturing industry. In affiliation with the National League of Cities, Mayor Nutter also launched Cities United, an initiative aimed at creating partnerships between cities, non-profits, and other stake holders to combat violence and crime among African-American men and boys.

Born in Philadelphia and educated at the Wharton School at the University of Pennsylvania, Michael Nutter has been committed to public service since his youth in West Philadelphia. He served almost 15 years on the Philadelphia City Council, earning the reputation of a reformer, before his election as Mayor of Philadelphia. He is happily married to his wife Lisa, and a proud parent to Christian and Olivia.

**Everett A. Gillison, Chief of Staff to the Mayor and Deputy Mayor for Public Safety**, was appointed Chief of Staff by Mayor Nutter on October 19, 2011. Mr. Gillison has served as Deputy Mayor for Public Safety since January 7, 2008, and continues in his role as Deputy Mayor for Public Safety in addition to his role as the Mayor's Chief of Staff. Mr. Gillison previously served as a Senior Trial Lawyer for the Defender Association of Philadelphia where he worked for more than 30 years.

**Rob Dubow, Director of Finance**, was appointed on January 7, 2008. Prior to his appointment, Mr. Dubow was the Executive Director of PICA. He has also served as Chief Financial Officer of the Commonwealth, from 2004 to 2005 and as Budget Director for the City, from 2000 to 2004.

**Nancy E. Winkler, City Treasurer**, was appointed City Treasurer effective January 31, 2011. Prior to her tenure with the City, Ms. Winkler worked for over 28 years with Public Financial Management (the PFM Group), from 1990 to 2011 as Managing Director, with responsibility to manage the firm's municipal, state and authority practices in New York and Maryland.

**Government Services**

Municipal services provided by the City include: police and fire protection; health care; certain welfare programs; construction and maintenance of local streets, highways, and bridges; trash collection, disposal and recycling; provision for recreational programs and facilities; maintenance and operation of the water and wastewater systems (the "Water and Wastewater Systems"); the acquisition and maintenance of City real and personal property, including vehicles; maintenance of building codes and regulation of licenses and permits; maintenance of records; collection of taxes and revenues; purchase of supplies and equipment; construction and maintenance of airport facilities; and maintenance of a prison system. The City owns the assets that comprise the Philadelphia Gas Works ("PGW" or the "Gas Works"). PGW serves residential, commercial, and industrial customers in the City. PGW is operated by Philadelphia Facilities Management Corporation ("PFMC"), a non-profit corporation specifically organized to manage and operate PGW for the benefit of the City.

In 2012, the City engaged a team of legal and financial advisors, as well as brokers, to assist with a process to consider the sale of PGW to a private entity. The City received more than 30 responses to its Request for Qualifications from potential bidders on August 30, 2013, and received indicative bids from a number of

prequalified bidders on November 1, 2013. A short-list of bidders was approved to continue in the process, and final bids were received on January 31, 2014.

On March 2, 2014, the City as seller, entered into an Asset Purchase Agreement ("Agreement"), providing for the sale of a portion of the assets that comprise PGW and the transfer of PGW operations to a private entity for a purchase price of $1,860,000,000 (the "Sale"). The purchaser is comprised of UIL Holdings Corporation, a Connecticut corporation, as parent ("UIL") and WGP Acquisition LLC, a Delaware limited liability company and wholly-owned subsidiary of UIL, as buyer ("Buyer"). UIL has formed the Buyer for the purpose of acquiring, owning and operating PGW. UIL has guaranteed all of the obligations of Buyer under the Agreement and related documents. Information concerning UIL can be found at www.uil.com.

After legally defeasing all of PGW's debt obligations and putting aside funds for other PGW-related liabilities, including fully funding the PGW pension plan and reserving for residual risks (as further described below), the City expects to have between $420 million and $650 million remaining, which the City's administration has proposed to deposit into the City's Municipal Pension Fund. The City's administration also has proposed certain measures to preserve the value of this contribution so that the benefit to the City's Municipal Pension Fund will be protected over time, and without any negative impact on the City's General Fund resulting from the loss of the annual contribution of $18 million from PGW following the Sale.

No Sale of PGW can be completed without providing for: (i) the payment and legal defeasance of the City's outstanding Gas Works Revenue Bonds and Notes, (ii) the termination of agreements, including interest rate exchange agreements, relating to such Bonds and Notes, and (iii) the satisfaction by the City of all of its obligations under such agreements, including the payment in full of associated termination costs. Additionally, in connection with the Sale, the City intends to fully fund or reserve for pension and other liabilities of PGW that may remain with the City after the closing date of the Sale.

Closing on the Agreement and the Sale is subject to authorization by Philadelphia's City Council and approval by the Pennsylvania Public Utility Commission ("PUC"), and the satisfaction of certain other conditions by the City and the Buyer set forth in the Agreement. No assurance can be provided that such authorization and approval will be obtained or such conditions will be satisfied. City Council has hired Concentric Energy Advisors Inc. of Marlborough, Massachusetts to review details of the Sale and to explore alternatives to a sale of PGW. City Council has recessed for the summer and is not expected to take up consideration of the sale until the fall of 2014. The Agreement provides certain no-cost options for UIL to withdraw from the Agreement, including a provision which allows UIL to withdraw at any time if City Council has not approved the Sale by July 15, 2014.

Additional information concerning the Sale may be viewed at http://www.exploringasale.com. The City expects to continue to provide updates and public information regarding the progress of the Sale on the City's Investor Website (as defined herein).

**Local Government Agencies**

There are a number of significant governmental authorities and quasi-governmental non-profit corporations that also provide services within the City. Certain of these entities are comprised of governing boards, the members of which are either appointed or nominated, in whole or part, by the Mayor, while others are independent of the Mayor's appointment or recommendation.

***Mayoral-Appointed or Nominated Agencies***

**PIDC/PAID**. The Philadelphia Industrial Development Corporation ("PIDC") and its affiliate, the Philadelphia Authority for Industrial Development ("PAID"), coordinate the City's efforts to maintain an attractive business environment and to attract new businesses to the City and retain existing ones. Of the 30 members of the board of PIDC, seven are City officers or officials (the Mayor, the Director of Commerce, the President of City Council or a designee, the Chairman of the City Planning Commission, the City Solicitor, the Managing Director, and the Director of Finance), 15 are nominated jointly by the President of the Greater Philadelphia Chamber of

Commerce and the Director of Commerce, and eight are nominated by the President of the Greater Philadelphia Chamber of Commerce. The five-member board of PAID is appointed by the Mayor.

**PMA**. The Philadelphia Municipal Authority (formerly The Equipment Leasing Authority of Philadelphia) ("PMA") was originally established for the purpose of buying equipment and vehicles to be leased to the City. PMA's powers have been expanded to include any project authorized under applicable law which is specifically authorized by ordinance of City Council. The PMA is governed by a five-member board appointed by City Council from nominations made by the Mayor.

**PEA**. The Philadelphia Energy Authority ("PEA") was established by the City and incorporated in 2011 for the purpose of facilitating and developing energy generation projects, facilitating and developing energy efficiency projects, the purchase or facilitation of energy supply and consumer energy education. The PEA is authorized to participate in projects on behalf of the City, other government agencies, institutions and businesses. The PEA is governed by a five-member board appointed by City Council from four nominations made by the Mayor and one nomination from City Council.

**PRA**. The Philadelphia Redevelopment Authority (formerly known as the Redevelopment Authority of the City of Philadelphia) (the "PRA"), supported by Federal funds through the City's Community Development Block Grant Fund and by Commonwealth and local funds, is responsible for the redevelopment of the City's blighted areas. The PRA is governed by a five-member board appointed by the Mayor and must submit its budgets to the City for review and approval.

**Housing Authority**. The Philadelphia Housing Authority (the "Housing Authority") is the fourth largest public housing authority in the United States and is responsible for developing and managing low and moderate income rental units and limited amounts of for-sale housing in the City. By Act 130 of 2012 ("Act 130"), the number of Board members for the Housing Authority was increased, and the method of the Board's appointment was changed. Under Act 130, the Housing Authority is to be governed by a Board of nine members appointed by the Mayor of the City, subject to the approval of City Council. New members of the Housing Authority Board were duly appointed and took office on April 26, 2013. From March 4, 2011 until April 26, 2013, the Housing Authority was under the control of the U.S. Department of Housing and Urban Development under the terms of a Co-operative Endeavor Agreement, which terminated on April 26, 2013. In March 2013, Kelvin A. Jeremiah was appointed to be the President and CEO of the Housing Authority, after having served as Interim Administrative Receiver/Interim Executive Director since June 15, 2012.

**Hospitals Authority**. The Hospitals and Higher Education Facilities Authority of Philadelphia (the "Hospitals Authority") assists non-profit hospitals by financing hospital construction projects. The City does not own or operate any hospitals. The powers of the Hospitals Authority also permit the financing of construction of buildings and facilities for certain colleges and universities and other health care facilities and nursing homes. The Hospitals Authority is governed by a five-member board appointed by City Council from nominations made by the Mayor.

**SEPTA**. The Southeastern Pennsylvania Transportation Authority ("SEPTA"), which is supported by transit revenues and Federal, Commonwealth, and local funds, is responsible for developing and operating a comprehensive and coordinated public transportation system in the southeastern Pennsylvania region. Two of the 15 members of SEPTA's board are appointed by the Mayor and confirmed by City Council.

**Convention Center Authority**. The Pennsylvania Convention Center Authority (the "Convention Center Authority") constructed and maintains, manages, and operates the Pennsylvania Convention Center, which opened on June 25, 1993. The Pennsylvania Convention Center is owned by the Commonwealth and leased to the Convention Center Authority. An expansion of the Pennsylvania Convention Center was completed in March 2011. This expansion enlarged the Pennsylvania Convention Center to approximately 2,300,000 square feet with the largest contiguous exhibit space in the Northeast, the largest convention center ballroom in the East and the ability to host large tradeshows or two major conventions simultaneously. Of the 15 members of the board of the Convention Center Authority, two are appointed by the Mayor and one by each of the President and Minority Leader of City Council. The City Finance Director is an ex-officio member of the Board. The Commonwealth, the City and the Convention Center Authority have entered into an operating agreement with respect to the operation and financing

of the Pennsylvania Convention Center. In January 2014, SMG began managing and operating the Pennsylvania Convention Center, instituting a number of measures intended to reduce and control show costs and improve customer service.

**The School District**. The School District was established by the Educational Supplement to the City's Home Rule Charter to provide free public education to the City's residents. Under the Home Rule Charter, its governing body must submit a lump sum statement of expenditures to the City Council annually. Such statement is used by City Council in making its determination to authorize the levy by the School District's governing body of School District taxes. Certain financial information regarding the School District is included in the City's Comprehensive Annual Financial Report. The School District has no independent power to authorize school taxes and its governing body may levy only the taxes authorized for the School District by the City and the Commonwealth Legislature. Under the Home Rule Charter, the School District is managed by a nine-member Board of Education appointed by the Mayor from a list supplied by an Educational Nominating Panel that is chosen by the Mayor. In some matters, including the incurrence of short-term and long-term debt, the School District is governed primarily by the laws of the Commonwealth. The School District is a separate political subdivision of the Commonwealth and the City has no property interest in or claim on any revenues or property of the School District.

The School District was declared distressed by the Secretary of Education of the Commonwealth pursuant to Section 691(c) of the Public School Code of 1949, as amended (the "School Code"), effective December 22, 2001. During a period of distress under Section 691(c) of the School Code, all of the powers and duties of the Board of Education granted under the School Code or any other law are suspended and all of such powers and duties are vested in the School Reform Commission (the "School Reform Commission") created pursuant to the School Code. The School Reform Commission is granted all of the powers and duties of the Board of Education by Section 696 of the School Code as well as all the powers and duties of a board of control under the School Code. The School Reform Commission is responsible for the operation, management and educational program of the School District during such period. It is also responsible for financial matters related to the School District. The School Code provides that the members of the Board of Education continue to serve during the time the School District is governed by the School Reform Commission, and that the establishment of the School Reform Commission shall not interfere with the regular selection of the members of the Board of Education. During the tenure of the School Reform Commission, the Board of Education will perform those duties delegated to it by the School Reform Commission. As of the date hereof, the School Reform Commission has not delegated any duties to the Board. Two of the five members of the School Reform Commission are appointed by the Mayor and three by the Governor of the Commonwealth, subject to confirmation by the Pennsylvania Senate.

***Non-Mayoral-Appointed or Nominated Agencies***

**PICA**. PICA was created on June 5, 1991 by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act"). PICA was established to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. Each of the Governor of the Commonwealth, the President pro tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives and the Minority Leader of the Pennsylvania House of Representatives appoints one voting member of PICA's board. The Secretary of the Budget of the Commonwealth and the Director of Finance of the City serve as ex officio members of PICA's board with no voting rights. The City is required to develop an annual five-year financial plan and obtain annual approval of such five-year financial plan from PICA; the City is also required to prepare and submit quarterly reports to PICA. See "SUMMARY FINANCIAL INFORMATION" for a further discussion of PICA, its relationship to the City and its financial oversight role.

**Parking Authority**. The Philadelphia Parking Authority (the "Parking Authority") is responsible for the construction and operation of parking facilities in the City and at the Philadelphia International Airport and, by contract with the City, for enforcement of on-street parking regulations. The members of the Parking Authority's board are appointed by the Governor of the Commonwealth, with certain nominations from the General Assembly of the Commonwealth.

## DISCUSSION OF FINANCIAL OPERATIONS

### Principal Operations

The major operations of the City are conducted through the General Fund. In addition to the General Fund, operations of the City are conducted through two other major governmental funds and 12 minor governmental funds. The two major governmental funds and three of the minor governmental funds are financed solely through grants from the Commonwealth and Federal government. The City's Debt Service Fund and Capital Projects Fund are also included with the minor governmental funds. The Fiscal Year 2012 Operating Budget moved the reimbursable component of the Department of Human Services ("DHS") activities (constituting approximately 80% of DHS activities) from the General Fund to the Grants Revenue Fund.

### Fund Accounting

Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for particular purposes or objectives. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. The governmental funds are used to account for the financial activity of the City's basic services, such as: general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; and streets, highways and sanitation. The funds' financial activities focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. The financial information presented for the governmental funds is useful in evaluating the City's short term financing requirements.

The City maintains twenty-three individual governmental funds. The City's Comprehensive Annual Financial Report ("CAFR"), including for the City's Fiscal Year ended June 30, 2013, presents data separately for the General Fund, Grants Revenue Fund and Health Choices Behavioral Health Fund, which are considered to be major funds. Data for the remaining twenty funds are combined into a single aggregated presentation.

Proprietary Funds. The proprietary funds are used to account for the financial activity of the City's operations for which customers are charged a user fee; they provide both a long and short-term view of financial information. The City maintains three enterprise funds that are a type of proprietary fund - airport, water and wastewater operations, and industrial land bank.

Fiduciary Funds. The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for PGW's employees' retirement reserve assets. Both of these fiduciary activities are reported in the City's CAFR, including for the City's Fiscal Year ended June 30, 2013, as separate financial statements of fiduciary net assets and changes in fiduciary net assets.

The City reports its financial performance on a consolidated basis including the School District. The City is required by the Home Rule Charter to issue, within one hundred and twenty days after the close of each fiscal year, a statement as of the end of the fiscal year showing the balances in all funds of the City, the amounts of the City's known liabilities, and such other information as is necessary to furnish a true picture of the City's financial condition. The Annual Financial Report, which is released on or about October 28 of each year, is intended to meet these requirements and is not audited. The CAFR for each fiscal year is published at a later date. The Annual Financial Report contains financial statements for all City governmental funds and blended component units presented on the modified accrual basis. The proprietary and fiduciary funds are presented on the full accrual basis. It also contains budgetary comparison schedules for those funds that are subject to an annual budget. The financial statements of the City's discretely presented component units that are available as of the date of the Annual Financial Report are also presented. Historically these results have not changed between the Annual Financial Report and the CAFR.

See "CITY FINANCES AND FINANCIAL PROCEDURES" for a further description of these funds.

**Current Financial Information**

The Adopted Fiscal Year 2015 Budget (hereinafter defined), the proposed Twenty-Third Five-Year Plan (hereinafter defined), the Adopted Fiscal Year 2014 Budget (hereinafter defined) and Twenty-Second Five-Year Plan (hereinafter defined), as further revised, and the Quarterly City Manager's Report are discussed below. As described more fully in "CITY FINANCES AND FINANCIAL PROCEDURES-Budget Procedures" herein, annually in March the executive branch prepares a budget for the next fiscal year together with a five-year financial plan. City Council is required by the Home Rule Charter to adopt the budget at least 30 days prior to the end of the fiscal year. The City has not adopted a budget later than the end of the fiscal year in the past ten (10) years. The City Council may change the budget from that which is proposed by the executive branch. The budget and corresponding five-year plan include information and projections for the current fiscal year. Subsequent to the release of the five-year plan, the City reviews and may revise the financial projections underlying the budget and the five-year plan in its Quarterly City Manager's Reports (the reports are required by the PICA Act and are released forty-five days after the end of every calendar quarter). The estimates for Fiscal Year 2014 which are taken from the Adopted Fiscal Year 2015 Budget are included in certain of the financial information with respect to the City presented herein.

**Fiscal Year 2015 Adopted Budget**

The City's Fiscal Year 2015 budget (the "Adopted Fiscal Year 2015 Budget") was presented to City Council on March 6, 2014, was approved by City Council on June 19, 2014 and signed by the Mayor on June 27, 2014. The Adopted Fiscal Year 2015 Budget projects estimated General Fund revenues of $4.426 billion, obligations of $4.525 billion, an operating deficit of $78.4 million (net of prior year adjustments), which results in a projected ending fund balance of $68.4 million on the legally enacted basis. The Adopted Fiscal Year 2015 Budget conforms to the revised Twenty-Third Five-Year Plan which was submitted to PICA on June 26, 2014 and is currently under review. See "SUMMARY FINANCIAL INFORMATION-Five-Year Plans of the City."

Total tax revenues are estimated at $2.75 billion, a decrease of $14.4 million or 0.5% under Fiscal Year 2014. In Fiscal Year 2015 growth is projected for all major taxes except for the Sales Tax. Under the reauthorized Sales Tax rate increase of an additional 1% approved by the Mayor on June 12, 2014, and effective on July 1, 2014, (1) the first $120 million collected will be paid to the School District; (2) for Fiscal Years 2015 through 2018, the next $15 million collected may be applied to payment of debt service on obligations to be issued by the City for the benefit of the School District; and (3) the remainder will be paid to the City pursuant to Act 205 for application to the Municipal Pension Fund.

In the Adopted Fiscal Year 2015 Budget, total revenues are estimated to increase $702.0 million, or 18.8%, largely due to the inclusion of an estimated $700 million in one-time locally generated non-tax revenues from the proposed sale of the Philadelphia Gas Works "PGW" which will only occur if PGW is sold. Additionally, the Adopted Fiscal Year 2015 Budget provides an equal one-time expenditure of $700 million that is budgeted to be paid to the City's Municipal Pension Fund which will only occur if PGW is sold. See "Governmental Services" in this APPENDIX A.

Budgeted Fiscal Year 2015 expenditures total $4.525 billion, a $680 million (17.7%) increase from Fiscal Year 2014. The largest increase in expenditures is the result of the addition of a $700 million one-time expenditure from the proceeds from the sale of PGW (see above). Excluding this one-time expenditure, the Fiscal Year 2015 expenditures represent a $21 million (0.5%) decrease versus Fiscal Year 2014 and is largely the result of the elimination of the pension deferral payment of $120 million which is being offset by increases in other costs including pension, employee benefit and debt service costs.

**Fiscal Year 2014 Adopted Budget**

The City's Fiscal Year 2014 budget (the "Adopted Fiscal Year 2014 Budget") was presented to City Council on March 14, 2013, was approved by City Council on June 20, 2013 and signed by the Mayor on June 25, 2013. The Adopted Fiscal Year 2014 Budget projects estimated General Fund revenues of $3.724 billion, obligations of $3.845 billion, an operating deficit of $102.4 million (net of prior year adjustments), which results in a projected ending fund balance of $86.5 million on the legally enacted basis. The Adopted Fiscal Year 2014 Budget

conforms to the Twenty-Second Five-Year Plan originally submitted to PICA, but not to the revised Twenty-Second Five-Year Plans described below. See "SUMMARY FINANCIAL INFORMATION-Five-Year Plans of the City."

Total tax revenues are estimated at $2.76 billion, an increase of $29.1 million or 1.0% over Fiscal Year 2013. In Fiscal Year 2014, growth is projected for all major taxes except the property tax for which no growth is assumed and the Business Income and Receipts Tax ("BIRT") for which negative growth is assumed given receipts in Fiscal Year 2013. The City's plan to implement the Actual Value Initiative (AVI) in Fiscal Year 2014 has been adopted. See "REVENUES OF THE CITY-Real Property Taxes." The City property tax rate for Fiscal Year 2014 has been set at 1.34%; the Adopted Fiscal Year 2014 Budget assumes that, under AVI, approximately the same amount of property tax revenue will be collected in Fiscal Year 2014 as was projected for Fiscal Year 2013. The Adopted Fiscal Year 2014 Budget includes the resumption of wage tax cuts which were halted during the recession.

In the Adopted Fiscal Year 2014 Budget, total revenues increase $25.6 million, or 0.7%, largely due to the combination of the tax growth described above together with a $23 million decrease in revenue from other governments, a $1 million decrease in local non-tax revenues, and a $20 million increase in revenues from other funds of the City. The budgeted decrease in revenue from other governments is largely due to the effect of reimbursed obligations and associated revenues for DHS which were moved to the Grants Revenue Fund in Fiscal Year 2012. Reimbursement revenues related to expenditures in prior years continued to be received in the General Fund in Fiscal Year 2013, however in Fiscal Year 2014 no additional revenue is anticipated in the General Fund budget.

Budgeted Fiscal Year 2014 expenditures total $3.845 billion, a $232 million (6.4%) increase from Fiscal Year 2013. The largest increase in expenditures is the result of the addition of $84.7 million provision for potential labor obligations related to District Council 33, District Council 47 and IAFF Local 22. See "EXPENDITURES OF THE CITY-Overview of Current Labor Situation." Other increases are due to rising pension, employee benefit and debt service costs which account for about $69 million of this increase and an additional $20 million is due to a salary increase awarded to the Fraternal Order of Police. The remaining estimated $58 million represents a 1.6% increase.

The Twenty-Second Five-Year Plan was submitted to PICA on July 3, 2013, and revised Twenty-Second Five-Year Plans were submitted to PICA on September 3, 2013, and September 10, 2013, as described under "SUMMARY FINANCIAL INFORMATION-Five-Year Plans of the City." The revised Twenty-Second Five-Year Plan submitted to PICA on September 10, 2013, which was approved by PICA on September 17, 2013, projects a Fiscal Year 2014 ending General Fund balance of $78.5 million on the legally enacted basis and reflects the effect of the August 2013 order of the Court of Common Pleas directing the City to implement certain portions of the health care provisions of the July 2, 2012 interest arbitration award between the City and the IAFF (defined below) (the "August 2013 IAFF Order") and the IAFF Withdrawal (defined below) on the General Fund. On November 15, 2013, the City filed a further revision to the Twenty-Second Five-Year Plan which included: $2.4 million in additional costs associated with the Sheriff's Office arbitration award; incorporation of actual Fiscal Year 2013 financial results which were $33.1 million better than projected in the plan approved by PICA on September 17, 2013; a $3.6 million increase in projected State pension aid revenue under Act 205 (defined below) in Fiscal Year 2014; inclusion of $45 million of one-time State aid that will pass through the General Fund in Fiscal Year 2014 and be paid to the School District (this change has no net impact on the General Fund); and a shift of Fire Department salary costs from a reserve for labor obligations to the personal services category. This revision of the Twenty-Second Five-Year Plan was approved by PICA on November 19, 2013. On March 10, 2014, the City filed an additional revision to the Twenty-Second Five-Year Plan which included $107.6 million in additional costs associated with the agreement reached with DC 47 (hereinafter defined) through the end of Fiscal Year 2018 which is $86.6 million higher than the amounts already set aside and contained updates to reflect changes in revenue and expense assumptions which are consistent with the proposed Twenty-Third Five-Year Plan submitted to City Council on March 6, 2014. This latest revision to the Twenty-Second Five-Year Plan was approved by PICA on March 18, 2014. See "SUMMARY FINANCIAL INFORMATION-Five-Year Plans of the City" and "EXPENDITURES OF THE CITY-Overview of Current Labor Situation – IAFF."

**Fiscal Year 2014 Current Estimate**

The Adopted Fiscal Year 2015 Budget includes updated estimates for Fiscal Year 2014 and projects revenues for Fiscal Year 2014 of $3.838 billion, obligations of $3.968 billion, an operating deficit of $110.1 million (net of prior year adjustments) and an ending fund balance of $146.8 million on the legally enacted basis, which is $60.3 million higher than the ending fund balance in the Adopted Fiscal Year 2014 Budget.

Total Revenues are projected to be $114.9 million higher than the Adopted Fiscal Year 2014 Budget. Tax Revenues for Fiscal Year 2014 are projected to be $26.1 million higher than the Adopted Fiscal Year 2014 Budget due to increases in the projections for the BIRT of $51.3 million, Net Profits Tax of $6.7 million and Realty Transfer Tax of $2.9 million which is being partially offset by lower projections of Wage and Earnings Tax of $23.6 million, Real Estate Tax of $3.4 million and Sales Tax of $7.6 million. Locally Generated Non-Tax Revenues are revised upward by $42.2 million, largely the result of one-time revenue from the sale of the Love Park Garage of $29.2 million, increased cable TV franchise fees of $1.9 million, increased commercial property collection fees of $6.0 million, increased collections of Licenses & Inspections permit & license fees of $2.0 million, increased reimbursements for fuel use by local agencies of $1.0 million, increased health benefit related reimbursements of $1.7 million and higher Sheriff's fees of $6.0 million which is being partially offset by lower than projected revenues from recycling $1.0 million, EMS fees of $1.0 million, recording fees of $0.6 million, interest earnings of $1.6 million and traffic fines of $0.5 million. Revenues from Other Governments are projected to be $46.2 million higher than forecasted due to higher than anticipated pension aid under Act 205 of $3.6 million and $45 million of one-time State aid that will pass through the General Fund in Fiscal Year 2014 and be paid to the School District (this change has no net impact on the General Fund) which is being partially offset by lower estimates of revenue from the Parking Authority for on-street parking of $1.5 million and from the PICA City Account of $1.8 million.

Total obligations are projected to be $122.5 million higher than the Adopted Fiscal Year 2014 Budget. The increase is primarily the result of $0.8 million in additional costs associated with the arbitration award for Deputy Sheriffs, the addition of $49.3 million in health and legal services costs resulting from the IAFF Withdrawal (which was included in the Twenty-Second Five-Year Plan approved by PICA on November 19, 2013, and approximately $31 million of which is for retroactive payments), the inclusion of a $45 million payment to the School District as a result of additional one-time State aid, the addition of the one-time payout of the sale proceeds from the Love Park Garage of $29.2 million, increased indemnity costs of $8.5 million, increased costs from the severe winter weather of $6.3 million and increased building demolition costs of $3.0 million, which are being partially offset by the move of the unspent portion of the labor reserve for District Council 33 and the IAFF from Fiscal Year 2014 to Fiscal Year 2015 in the amount of $25.5 million.

**Fiscal Year 2013 Adopted Budget**

The City's Fiscal Year 2013 budget was presented to City Council on March 8, 2012, was approved by City Council on June 28, 2012, and signed by the Mayor on June 29, 2012. The General Fund budget projected estimated revenues of $3.568 billion, obligations of $3.604 billion, an operating deficit of $17.6 million (net of prior year adjustments) and based on an assumed Fiscal Year 2012 ending General Fund balance of $98.970 million, it projected an ending fund balance of $81.3 million on the legally enacted basis. The actual Fiscal Year 2012 ending General Fund balance was $146.754 million. The Fiscal Year 2013 budget conformed to the Twenty-First Five-Year Plan (hereinafter defined), which was submitted to PICA on July 27, 2012, resubmitted with addendum on August 9, 2012 and approved by PICA on September 5, 2012.

**Fiscal Year 2013 Results**

The City's CAFR for the Fiscal Year ended June 30, 2013 (the "Fiscal Year 2013 CAFR"), released on February 24, 2014, reported that the City had revenues of $3.698 billion, obligations of $3.613 billion and an ending fund balance of a positive $256.9 million on the legally enacted basis.

Actual revenues for Fiscal Year 2013 were $130.3 million higher than the Fiscal Year 2013 adopted budget, primarily driven by taxes which were $119 million higher than the Fiscal Year 2013 adopted budget and actual obligations which were $9.4 million higher than the Fiscal Year 2013 adopted budget, resulting in a higher

operating surplus of $110.1 million (net of prior year adjustments) and an ending fund balance of $256.9 million on a legally enacted (budgetary) basis.

**Fiscal Year 2012 Budget**

The City's Fiscal Year 2012 budget was presented to City Council on March 3, 2011, was approved by City Council on June 23, 2011, and signed by the Mayor on June 24, 2011. The budget projected estimated revenues of $3.503 billion, obligations of $3.470 billion, an operating surplus of $57.1 million and an ending fund balance of $60.6 million on the legally enacted basis. The Fiscal Year 2012 budget conformed to the Twentieth Five-Year Plan (hereinafter defined) which was submitted to PICA on July 7, 2011, and approved by PICA on July 26, 2011.

For several years, the financial position of the City's General Fund had been distorted by the timing of the receipt of reimbursements from the Commonwealth for DHS. For a variety of reasons, those reimbursements had not been received in the same year as the costs were incurred. As a result, the costs were reflected in the City's fund balances, but the reimbursements were not, leading to fund balances that were distorted and artificially low. In some years, the late receipt of reimbursements led to changes of tens of millions of dollars in the City's fund balance.

The Fiscal Year 2012 budget moved reimbursed costs and corresponding revenues for services provided by DHS of approximately $495.1 million to the Grants Revenue Fund. As a result of this change the City's General Fund balance better reflects the City's financial condition.

**Fiscal Year 2012 Results**

The City's CAFR for the Fiscal Year ended June 30, 2012, released on February 21, 2013, reported that the City had revenues of $3.591 billion, obligations of $3.485 billion and an ending fund balance of a positive $146.8 million on the legally enacted basis.

**Overview of City Response to Economic Downturn**

Between October of 2008 and December 2011, the City implemented significant actions to balance the budget and its five-year plans, including reducing overtime costs, reducing General Fund full- and part-time employee headcount by 1,652 (from December 31, 2008 to December 31, 2011), implementing a temporary five year sales tax increase (expiring June 30, 2014) and a 9.9% Real Estate Tax increase in Fiscal Year 2011, pension funding changes, freezing City funded and business privilege tax reductions until Fiscal Year 2014, increasing fees, and instituting spending cuts throughout the government. During this period of time, the City improved its public safety results due to important changes in policing and has largely maintained delivery of its services.

The City undertook these measures as a result of the impact of the national and global recession. Beginning in August 2008, the City began to experience adverse budgetary performance for Fiscal Year 2009 as a result of the recession. In November 2008, the City projected a gap of at least $1 billion over the five-year period of the Seventeenth Five-Year Plan (covering Fiscal Years 2009-2013) (the "Seventeenth Five-Year Plan"), and the City took a series of measures to close the projected gap for Fiscal Year 2009 and over the period of the Seventeenth Five-Year Plan. However, the economy deteriorated further and revenues declined at a greater pace than had been projected, leaving the City with a Fiscal Year 2009 operating deficit of $286.8 million resulting in a deficit of $236.8 million after prior year net adjustments of $41.8 million and a cumulative adjusted year-end General Fund balance deficit of $137.2 million. Tax receipts continued to display weakness in Fiscal Year 2010, increasing the projected gap for both Fiscal Year 2010 and the period of the Eighteenth Five-Year Plan (hereinafter defined). In total during the six-year period of Fiscal Years 2009-2014, the projected shortfall reached $2.4 billion. As a result of a number of steps outlined herein, in Fiscal Year 2010, the City had a cumulative adjusted year-end General Fund balance deficit of $114.0 million, in Fiscal Year 2011, the City had a cumulative adjusted year-end General Fund balance surplus of approximately $92,000, and in Fiscal Year 2012, the City had a cumulative adjusted year-end General Fund balance surplus of approximately $146.8 million. The Fiscal Year 2013 CAFR, released on February 24, 2014, reports a cumulative adjusted year-end General Fund balance surplus of $256.9 million. See also "CITY FINANCES AND FINANCIAL PROCEDURES -- Budget Stabilization Reserve."

**Current City Practices**

It is the City's practice to file its CAFR, which contains the audited combined financial statements of the City, in addition to certain other information such as the City's bond ratings and information about upcoming debt issuances with the Municipal Securities Rulemaking Board ("MSRB") as soon as practicable after delivery of such report. The Fiscal Year 2013 CAFR was deposited with the MSRB on February 25, 2014, through the MSRB's Electronic Municipal Market Access (EMMA) system. The CAFR is prepared by the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units. Upon written request to the Office of the Director of Finance and payment of the costs of duplication and mailing, the City will make available copies of the Fiscal Year 2013 CAFR. Such a request should be addressed to: Office of the Director of Finance, Municipal Services Building, Suite 1300, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102. The Fiscal Year 2013 CAFR is also available online at the City's Investor Information website: http://www.phila.gov/investor (the "City's Investor Website"), further described below, and is also attached hereto as APPENDIX C.

The Home Rule Charter requires the Director of Finance to issue within 120 days after the close of each Fiscal Year a statement as of the end of that year showing the balances in all funds of the City, the amounts of the City's known liabilities and such other information as is necessary to furnish a true picture of the City's financial condition. To meet this requirement, on or about October 28 of each year, the Director of Finance releases the Annual Financial Report for the prior Fiscal Year (available at the City's Investor Website). It is not audited; the audited financial statements of the City are contained in the CAFR, described above. The Annual Financial Report contains financial statements for all City governmental funds and blended component units presented on the modified accrual basis. The proprietary and fiduciary funds are presented on the full accrual basis. It also contains budgetary comparison schedules for those funds that are subject to an annual budget.

The City's Quarterly City Manager's Reports are also available at the City's Investor Website and are released within 45 days of the end of the applicable quarter.

The "Terms of Use" statement of the City's Investor Website, which applies to all users of the City's Investor Website, provides, among other things, that the information contained therein is provided for the convenience of the user, that the City is not obligated to update such information, and that the information may not provide all information that may be of interest to investors. The information contained on the City Investor Website does not constitute an offer to buy or sell securities, nor is it a solicitation therefor. The information contained on the City Investor Website is not incorporated by reference in this Official Statement and persons considering a purchase of the 2014 Bonds should rely only on information contained in this Official Statement or incorporated by reference herein.

The foregoing statement as to filing or furnishing of additional information reflects the City's current practices, but is not a contractual obligation to the holders of the City's bonds or notes.

The City also expects to provide financial and other information from time to time to Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings, in connection with the securities ratings assigned by those rating agencies to bonds or notes of the City.

## CITY FINANCES AND FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics, and other information shown below have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the City's CAFR and notes therein.

Governmental funds account for their activities using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when

a liability is incurred, as in the case of full accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due; however, those expenditures may be accrued if they are to be liquidated with available resources.

Imposed non-exchange revenues, such as real estate taxes, are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as wage, business privilege, net profits and earnings taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue that is considered to be program revenue includes: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues; therefore, all taxes are considered general revenues.

The City's financial statements reflect the following three funds as major Governmental Funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- The Health Choices Behavioral Health Fund accounts for resources received from the Commonwealth. These resources are restricted to providing managed behavioral health care to residents of the City.
- The Grants Revenue Fund accounts for the resources received from various federal, state and private grantor agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

In Fiscal Year 2012, the City transferred the majority of DHS revenues and obligations to the Grants Revenue Fund.

The City also reports on Permanent Funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of the Permanent Funds that require the principal to remain intact, while only the earnings may be used for the programs.

The City reports on the following Fiduciary Funds:

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.
- The Philadelphia Gas Works Retirement Reserve Fund accounts for contributions made by PGW to provide pension benefit payments to its qualified employees under its noncontributory pension plan.

The City reports on the following major Proprietary Funds:

- The Water Fund accounts for the activities related to the operation of the City's water delivery and sewage systems.
- The Aviation Fund accounts for the activities of the City's airports.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Water Fund are charges for water and sewer service. The principal operating revenue of the Aviation Fund is charges for the use of the City's airports. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Legal Compliance**

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles ("GAAP"). In accordance with the Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The operating funds of the City, consisting of the General Fund, nine Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, Health Choices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development, Car Rental Tax, Acute Care Hospital Assessment and Housing Trust Funds) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. Included with the Water Fund is the Water Residual Fund. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: personnel services; purchase of services; materials and supplies; equipment; contributions, indemnities and taxes; debt service; payments to other funds; and advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated together) must have City Council approval. Appropriations that are not expended or encumbered at year-end are lapsed.

The City's capital budget is adopted annually by City Council. The capital budget is appropriated by project for each department. Requests to transfer appropriations between projects must be approved by City Council. Any appropriations that are not obligated at year-end are either lapsed or carried forward to the next fiscal year.

Schedules prepared on the legally enacted basis differ from the GAAP basis in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures. The primary difference between the GAAP and legal (budgetary) fund balance is due to the timing of recognizing the Business Income and Receipts Tax ("BIRT"). The legal basis recognizes BIRT revenues in the fiscal year it is collected. The GAAP basis requires the City to recognize the BIRT revenues (which are primarily paid in April) for the calendar year in which the BIRT taxes are due, requiring the City to defer a portion of the April payment into the next fiscal year.

**Budget Procedure**

At least 90 days before the end of the Fiscal Year the operating budget for the next Fiscal Year is prepared by the Mayor and must be submitted to City Council for adoption. The budget, as adopted, must be balanced and provide for discharging any estimated deficit from the current Fiscal Year and make appropriations for all items to be funded with City revenues. The Mayor's budgetary estimates of revenues for the ensuing Fiscal Year and projection of surplus or deficit for the current Fiscal Year may not be altered by City Council. Not later than the passage of the operating budget ordinance, City Council must enact such revenue measures as will, in the opinion of the Mayor, yield sufficient revenues to balance the budget.

At least 30 days before the end of each Fiscal Year, City Council must adopt by ordinance an operating budget and a capital budget for the ensuing Fiscal Year and a capital program for the six ensuing years. If the Mayor disapproves the bill, he must return it to City Council with the reasons for his disapproval at the first meeting thereof held not less than ten days after he receives it. If the Mayor does not return the ordinance within the time required, it becomes law without his approval. If City Council passes the bill by a vote of two-thirds of all of its members within seven days after the bill has been returned with the Mayor's disapproval, it becomes law without his approval. The capital program is prepared annually by the City Planning Commission to present the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total cost of each project and the sources of funding (local, state, Federal, and private) estimated to be required to finance each project. The capital program is reviewed by the Mayor and transmitted to City Council for adoption with his recommendation thereon. See Table 33 for a summary of the City's capital improvement program for the Fiscal Years 2014 through 2019.

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from City Council appropriated funds, is adopted by City Council concurrently with the capital

program. The capital budget must be in full conformity with that part of the capital program applicable to the Fiscal Year that it covers.

**Budget Stabilization Reserve**

In April 2011, the City adopted an Amendment to the Home Rule Charter adding the following language to Section 7 thereof ("Budget Stabilization Reserve"), in addition to directions for implementation.

> (a) The annual operating budget ordinance shall provide for appropriations to a Budget Stabilization Reserve, to be created and maintained by the Director of Finance as a separate fund which shall not be commingled with any other funds of the City. Appropriations to the Budget Stabilization Reserve shall, each year, be made in the following amounts, provided that total appropriations to the Budget Stabilization Reserve shall not exceed five percent of General Fund Appropriations:
>
> > (1) Such amounts as remain unencumbered in the Budget Stabilization Reserve from the prior fiscal year, including any investment earnings certified by the Director of Finance; plus
> >
> > (2) When the Projected General Fund Balance for the end of the fiscal year to which the operating budget relates (the "upcoming fiscal year"), without taking into account any deposits to the Budget Stabilization Reserve required by this subsection (2), equals or exceeds three percent (3%) of General Fund appropriations for the upcoming fiscal year, an amount equal to three-quarters of one percent (.75%) of Unrestricted Local General Fund Revenues for the upcoming fiscal year; plus
> >
> > (3) Such additional amounts as the Council shall authorize by ordinance, no later than at the time of passage of the annual operating budget ordinance and only upon recommendation of the Mayor.

Since the enactment of such Budget Stabilization Reserve provisions in 2011, three City budgets have been presented by the Mayor; no budget ordinance has included a provision to fund the Budget Stabilization Reserve as described in paragraph (a)(2) above because the applicable projected year ending General Fund balances did not exceed the 3% General Fund appropriation threshold described in paragraph (a)(2) above.

## SUMMARY FINANCIAL INFORMATION

Tables 1 and 2 below should be read in conjunction with the discussion concerning financial procedures of the City described under "CITY FINANCES AND FINANCIAL PROCEDURES."

**Table 1**
**General Fund**
**Summary of Operations (Legal Basis)**
**(Amounts in Millions of USD)**

| | Actual 2006 | Actual 2007 | Actual 2008 | Actual 2009 | Actual 2010 | Actual 2011 | Actual[5] 2012 | Actual 2013 | Adopted Budget[6] 2014 | Current Estimate[7] 2014 | Adopted Budget[7] 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | | | | | |
| Real Property Taxes[1] | 395.8 | 397.5 | 402.8 | 400.1 | 402.2 | 482.7 | 500.7 | 540.5 | 536.6 | 533.2 | 547.4 |
| Wage and Earnings Tax | 1,111.2 | 1,167.4 | 1,184.8 | 1,117.0 | 1,114.2 | 1,134.3 | 1,196.3 | 1,221.5 | 1,274.1 | 1,250.5 | 1,294.7 |
| Net Profits Tax | 14.6 | 15.3 | 12.5 | 12.2 | 14.5 | 8.8 | 15.1 | 19.2 | 12.8 | 19.4 | 20.5 |
| Business Privilege Tax[2] | 415.5 | 436.4 | 398.8 | 386.0 | 364.7 | 376.9 | 389.4 | 450.9 | 410.0 | 461.3 | 453.2 |
| Sales Tax[3] | 127.8 | 132.6 | 137.3 | 128.2 | 207.1 | 244.6 | 253.5 | 257.6 | 272.6 | 264.9 | 154.6 |
| Other Taxes[4] | 304.1 | 286.7 | 260.3 | 209.3 | 213.9 | 211.8 | 215.4 | 243.7 | 256.5 | 259.4 | 277.8 |
| Total Taxes | 2,369.0 | 2,435.9 | 2,396.5 | 2,252.8 | 2,316.6 | 2,459.1 | 2,570.4 | 2,733.5 | 2,762.6 | 2,788.7 | 2,748.2 |
| Locally Generated Non-Tax Revenue[10] | 235.9 | 247.9 | 265.8 | 256.3 | 229.4 | 280.0 | 256.7 | 266.2 | 265.2 | 307.4 | 970.7 |
| Revenue from Other Governments[8] | 924.5 | 1,032.9 | 1,033.4 | 993.4 | 1,076.4 | 1,066.5 | 715.9 | 651.5 | 628.6 | 674.8 | 638.9 |
| Receipts from Other City Funds[8] | 24.9 | 27.4 | 27.2 | 135.4 | 31.9 | 54.6 | 48.3 | 46.8 | 67.2 | 67.5 | 67.9 |
| Total Revenue | 3,554.3 | 3,744.1 | 3,722.8 | 3,637.9 | 3,654.3 | 3,860.3 | 3,591.4 | 3,698.0 | 3,723.6 | 3,838.5 | 4,425.7 |
| Obligations/Appropriations | | | | | | | | | | | |
| Personnel Services | 1,250.2 | 1,327.6 | 1,390.7 | 1,406.3 | 1,358.5 | 1,360.4 | 1,319.0 | 1,362.4 | 1,401.3 | 1,459.0 | 1,433.9 |
| Purchase of Services | 1,065.7 | 1,151.6 | 1,188.7 | 1,174.2 | 1,111.4 | 1,127.8 | 760.8 | 757.8 | 790.6 | 799.6 | 814.9 |
| Materials, Supplies and Equipment | 82.1 | 89.1 | 92.1 | 82.7 | 68.7 | 78.3 | 79.9 | 85.4 | 88.6 | 96.7 | 92.6 |
| Employee Benefits[10] | 760.2 | 890.3 | 983.0 | 973.2 | 831.4 | 967.0 | 1,066.3 | 1,119.1 | 1,177.3 | 1,233.9 | 1,817.3 |
| Indemnities, Contributions and Grants | 110.9 | 119.0 | 120.9 | 130.0 | 128.0 | 111.1 | 118.0 | 138.3 | 141.7 | 209.4 | 145.2 |
| City Debt Service | 82.9 | 89.1 | 87.2 | 100.9 | 105.5 | 110.4 | 111.3 | 118.9 | 129.5 | 122.5 | 136.6 |
| Other[9] | 38.6 | 31.2 | 32.3 | 22.7 | 26.0 | 0.0 | 0.0 | 0.0 | 84.7 | 0.0 | 52.8 |
| Payments to Other City Funds | 35.4 | 38.7 | 24.8 | 25.3 | 24.2 | 30.3 | 29.5 | 31.4 | 31.6 | 46.9 | 31.2 |
| Total Obligations/Appropriations | 3,426.0 | 3,736.6 | 3,919.8 | 3,915.3 | 3,653.7 | 3,785.3 | 3,484.9 | 3,613.3 | 3,845.4 | 3,967.9 | 4,524.6 |
| Operating Surplus (Deficit) for the Year | 128.2 | 7.5 | (197.0) | (277.4) | 0.6 | 75.0 | 106.4 | 84.7 | (121.8) | (129.5) | (98.8) |
| Net Adjustments – Prior Year | 30.1 | 35.9 | 18.6 | 20.7 | 22.6 | 39.1 | 40.3 | 25.4 | 19.4 | 19.4 | 20.4 |
| Funding for Contingencies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cumulative Fund Balance Prior Year | 96.2 | 254.5 | 297.9 | 119.5 | (137.2) | (114.0) | 0.1 | 146.8 | 188.9 | 256.9 | 146.8 |
| Cumulative Adjusted Year End Fund Balance (Deficit) | 254.5 | 297.9 | 119.5 | (137.2) | (114.0) | 0.1 | 146.8 | 256.9 | 86.5 | 146.8 | 68.4 |

(1) Actual 2011 reflects a 9.9% increase. See "Revenues of the City – Assessment and Collection of Real and Personal Property Taxes" herein. The Twenty-First Five-Year Plan included a Real Estate Tax increase of 3.6% (8.2% on the City portion) in Fiscal Year 2013. The increased revenue generated by such increase was used to increase the City's annual grant to the School District by $20 million.

(2) Renamed the Business Income and Receipts Tax as of May 1, 2012.

(3) Reflects 1% increase effective October 8, 2009 and originally set to expire June 30, 2014. See "REVENUES OF THE CITY-Sales and Use Tax."

(4) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.

(5) The reduction in Revenue from Other Governments (State and Federal funding) in Fiscal Year 2012 is largely the result of transferring the majority of DHS revenues and obligations to the Grants Revenue Fund.

(6) From the Adopted Fiscal Year 2014 Budget. Does not conform to the revised Twenty-Second Five-Year Plan approved by PICA.

(7) From the Adopted Fiscal Year 2015.

(8) State gaming revenues are reported as a Receipt from Other City Funds in Fiscal Year 2009 and as Revenue from Other Governments in Fiscal Years 2010, 2011, 2012, 2013 and 2014.

(9) Other for Fiscal Year 2015 includes a provision for funding a portion of the "final offer" associated with District Council 33 and future IAFF and FOP Arbitration Awards. See "EXPENDITURES OF THE CITY−Overview of Current Labor Situation."

(10) Fiscal Year 2015 includes $700 million in revenue (Locally Generated Non-Tax) and expenditure (Employee Benefits – Pension) from the proposed sale of PGW.

Source: City of Philadelphia Department of Finance.

Figures may not add up due to rounding.

**Table 2**
**Principal Operating Funds (Debt Related)**
**Summary of Operations (Legal Basis)**
**(Amounts in Millions of USD)**

| | Actual 2006 | Actual 2007 | Actual 2008 | Actual 2009 | Actual 2010 | Actual 2011 | Actual[5] 2012 | Actual 2013 | Adopted Budget[6] 2014 |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | | | |
| General Fund | 3,554.3 | 3,744.1 | 3,722.8 | 3,637.9 | 3,654.3 | 3,860.3 | 3,591.4 | 3,698.0 | 3,723.6 |
| Water Fund[1] | 490.3 | 519.7 | 589.7 | 543.5 | 546.7 | 567.5 | 592.5 | 612.0 | 688.1 |
| Aviation Fund[2] | 271.5 | 268.6 | 287.9 | 294.1 | 290.2 | 304.8 | 299.2 | 304.6 | 414.5 |
| Other Operating Funds[3] | 41.9 | 44.9 | 113.2 | 49.5 | 50.1 | 48.1 | 48.3 | 56.2 | 55.4 |
| Total Revenue | 4,358.0 | 4,577.3 | 4,713.6 | 4,525.0 | 4,541.3 | 4,780.7 | 4,531.3 | 4,670.8 | 4,881.6 |
| Obligations/Appropriations | | | | | | | | | |
| Personnel Services | 1,412.9 | 1,498.2 | 1,568.9 | 1,579.0 | 1,523.6 | 1,525.0 | 1,484.3 | 1,534.9 | 1,590.8 |
| Purchase of Services | 1,233.5 | 1,328.5 | 1,441.4 | 1,369.2 | 1,312.8 | 1,344.2 | 1,001.4 | 1,005.3 | 1,086.4 |
| Materials, Supplies and Equipment | 136.2 | 145.9 | 151.1 | 140.7 | 128.9 | 135.2 | 140.0 | 147.4 | 166.8 |
| Employee Benefits | 845.3 | 990.1 | 1,095.8 | 1,091.4 | 932.8 | 1,092.2 | 1,196.0 | 1,266.3 | 1,329.6 |
| Indemnities, Contributions and Taxes | 116.5 | 122.6 | 127.1 | 135.9 | 134.4 | 118.7 | 123.0 | 145.3 | 156.5 |
| Debt Service[4] | 337.6 | 348.8 | 346.7 | 384.8 | 397.8 | 398.4 | 406.9 | 429.4 | 470.7 |
| Other [8] | 38.6 | 31.2 | 32.3 | 22.7 | 24.2 | 0.0 | 0.0 | 0.0 | 99.6 |
| Payments to Other City Funds | 119.4 | 144.9 | 154.7 | 88.1 | 98.5 | 101.3 | 113.3 | 166.0 | 132.8 |
| Total Obligations/ Appropriations | 4,240.0 | 4,610.2 | 4,917.9 | 4,811.8 | 4,553.0 | 4,715.0 | 4,465.0 | 4,694.7 | 5,033.4 |
| Operating Surplus (Deficit) for the Year | 118.0 | (32.8) | (204.3) | (286.8) | (11.6) | 65.7 | 66.4 | (23.9) | (151.7) |
| Net Adjustments Prior Year | 60.6 | 69.6 | 51.0 | 41.8 | 58.1 | 70.5 | 75.8 | 75.5 | 56.9 |
| Funding for Contingencies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cumulative Fund Balance (Deficit) Prior Year End | 132.9 | 311.5 | 348.3 | 195.0 | (50.0) | (3.4) | 132.7 | 274.9 | 249.2 |
| Cumulative Adjusted Year End Fund Balance (Deficit) | 311.5 | 348.3 | 195.0 | (50.0) | (3.4) | 132.7 | 274.9 | 326.5 | 154.4 |

(1) Revenues of the Water Fund are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied, and then only to the extent of $4,994,000 per year, provided certain further conditions are satisfied. For Fiscal Year 2006, 2007 and 2008, the transferred amount was $4,994,000. For Fiscal Year 2009, the transferred amount was $4,185,463. For Fiscal Year 2010, the transferred amount was $2,303,986, for Fiscal Year 2011, the amount transferred was $1,229,851. The transferred amount for Fiscal Year 2012 was $1,086,165 and the amount transferred for Fiscal Year 2013 was $560,000. The current estimate for Fiscal Year 2014 is $700,000

(2) Airport revenues are not available for other City purposes.

(3) Includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund and Water Residual Fund.

(4) Excludes PICA bonds.

(5) The reduction in General Fund revenues for Fiscal Year 2012 is largely the result of transferring the majority of DHS revenues and obligations to the Grants Revenue Fund.

(6) From the Adopted Fiscal Year 2014 Budget. Does not conform to the revised Twenty-Second Five-Year Plan approved by PICA.

(7) From the Adopted Fiscal Year 2015 Budget.

(8) Other for Fiscal Year 2015 includes a provision for funding a portion of the "final offer" associated with District Council 33 and future IAFF and FOP Arbitration Awards. See "EXPENDITURES OF THE CITY−Overview of Current Labor Situation."

Figures may not add up due to rounding.

**Independent Audit and Opinion of the City Controller**

The City Controller has examined and expressed opinions on the basic financial statements of the City contained in the Fiscal Year 2013 CAFR, which can be found at the City's Investor Website and is also attached hereto as APPENDIX C.

The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement other than what is contained in the Fiscal Year 2013 CAFR.

**Pennsylvania Intergovernmental Cooperation Authority**

PICA was created on June 5, 1991 by the PICA Act to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. The Governor of Pennsylvania, the President pro tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives and the Minority Leader of the Pennsylvania House of Representatives each appoints one voting member of PICA's board. The Secretary of the Budget of the Commonwealth and the Director of Finance of the City serve as ex officio members of PICA's board with no voting rights.

The PICA Act provides that, upon request by the City to PICA for financial assistance and for so long as any bonds issued by PICA remain outstanding, PICA shall have certain financial and oversight functions. PICA has the power, in its oversight capacity, to exercise certain advisory and review procedures with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City, and to certify non-compliance by the City with the then-existing five-year plan adopted by the City pursuant to the PICA Act. PICA is also required to certify non-compliance if, among other things, no approved five-year plan is in place; and PICA is required to certify non-compliance with an approved five-year plan if the City has failed to file mandatory revisions to an approved five-year plan. Under the PICA Act, any such certification of non-compliance would require the Secretary of the Budget of the Commonwealth to withhold payments due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payment of the portion of the PICA Tax, hereinafter described, otherwise payable to the City). See "DEBT OF THE CITY -- PICA Bonds." Under the PICA Act, the City is required to make quarterly financial reports to PICA, as further described under "Quarterly Reporting to PICA" below.

**Five-Year Plans of the City**

The PICA Act requires the City to annually develop a five-year financial plan and obtain PICA's approval of it. The original five-year plan, which covered Fiscal Years 1992 through 1996, was prepared by the Mayor, approved by City Council on April 29, 1992 and by PICA on May 18, 1992. In each subsequent year, the City updated the previous year's five-year plan, each of which was approved by PICA.

The Mayor presented the proposed Twenty-Third Five-Year Plan (the "Twenty-Third Five-Year Plan") to City Council on March 6, 2014. The Adopted Fiscal Year 2015 Budget conforms to the revised Twenty-Third Five-Year Plan which was submitted to PICA on June 26, 2014 and is currently under review. The revised Twenty-Third Five-Year Plan projects General Fund ending fund balances (on the legally enacted basis) for Fiscal Years 2015, 2016, 2017, 2018 and 2019 of $68.4 million, $54.1 million, $72.1 million, $92.9 million and $114.8 million, respectively. **Such projected balances are "forward looking statements" and are based on assumptions which may not be fully realized in the future and are subject to change. Accordingly, the actual ending fund balances could be lower or higher than those contained in the Twenty-Third Five-Year Plan.** Recognizing the benefits of maintaining adequate fund balances, the City is in the process of developing a policy related to its unreserved fund balance which would complement the Budget Stabilization Reserve policy. See "CITY FINANCES AND FINANCIAL PROCEDURES–Budget Stabilization Reserve." Although these policy targets are preliminary, the City anticipates that they might yield an aggregate target of having the General Fund balance and the Budget Stabilization Reserve in combination represent roughly 6-8% of expenditures on a budgetary basis. Any such

policy, should it be adopted, would not be mandatory and would be subject to change at any time by the City. The proposed Twenty-Third Five-Year Plan does not implement the policy under development.

The Mayor presented the Twenty-Second Five-Year Plan (the "Twenty-Second Five-Year Plan") to City Council on March 14, 2013, City Council approved the Adopted Fiscal Year 2014 Budget on June 20, 2013, and the Mayor signed it on June 25, 2013. The Adopted Fiscal Year 2014 Budget conforms to the original Twenty-Second Five-Year Plan. The Twenty-Second Five-Year Plan was submitted to PICA on July 3, 2013, and a revised Twenty-Second Five-Year Plan was submitted to PICA on September 3, 2013. Such revised Twenty-Second Five-Year Plan included additional expenditures resulting from the August 2013 IAFF Order and the updated current estimates from the Quarterly City Manager's Report for the period ended June 30, 2013, but did not reflect the IAFF Withdrawal. On September 10, 2013, the City withdrew the previously filed, revised Twenty-Second Five-Year Plan and filed a further revised Twenty-Second Five-Year Plan updated to include the effect of the IAFF Withdrawal. PICA approved such further revised Twenty-Second Five-Year Plan on September 17, 2013. On November 15, 2013, the City filed a further revision to the Twenty-Second Five-Year Plan which included: $2.4 million in additional costs associated with the Sheriff's Office arbitration award; incorporation of actual Fiscal Year 2013 financial results which were $33.1 million better than projected in the plan approved by PICA on September 17, 2013; a $3.6 million increase in projected State pension aid revenue under Act 205 in Fiscal Year 2014; inclusion of $45 million of one-time State aid that will pass through the General Fund in Fiscal Year 2014 and be paid to the School District (this change has no net impact on the General Fund); and a shift of Fire Department salary costs from a reserve for labor obligations to the personal services category. This revision of the Twenty-Second Five-Year Plan was approved by PICA on November 19, 2013. On March 10, 2014, the City filed an additional revision to the Twenty-Second Five-Year Plan which included $107.6 million in costs associated with the agreement reached with DC 47 through the end of Fiscal Year 2018 which is $86.6 million higher than the amounts already set aside and contained updates to reflect changes in revenue and expense assumptions which are consistent with the proposed Twenty-Third Five-Year Plan submitted to City Council on March 6, 2014. This latest revision to the Twenty-Second Five-Year Plan was approved by PICA on March 18, 2014. See "EXPENDITURES OF THE CITY-Overview of Current Labor Situation – IAFF."

The Mayor presented the Twenty-First Five-Year Plan (the "Twenty-First Five-Year Plan") to City Council on March 8, 2012, City Council approved the Fiscal Year 2013 Operating Budget on June 28, 2012, and the Mayor signed it on June 29, 2012. The adopted Fiscal Year 2013 Operating Budget conformed to the Twenty-First Five-Year Plan. The Twenty-First Five-Year Plan was approved by PICA on September 5, 2012. The Twenty-First Five-Year Plan included a Real Estate Tax increase of 3.6% (8.2% on the City portion) in Fiscal Year 2013 (increased revenue generated by such increase was transferred to the School District) and also made permanent the temporary 9.9% Real Estate Tax increase in the Nineteenth Five-Year Plan (described below).

The Mayor presented the Twentieth Five-Year Plan (the "Twentieth Five-Year Plan") to City Council on March 3, 2011. City Council approved the Fiscal Year 2012 Operating Budget on June 23, 2011, and the Mayor signed it on June 24, 2011. The adopted Fiscal Year 2012 Operating Budget conformed to the Twentieth Five-Year Plan. The Twentieth Five-Year Plan was approved by PICA on July 26, 2011.

The Mayor presented the Nineteenth Five-Year Plan (the "Nineteenth Five-Year Plan") to City Council on March 4, 2010. City Council approved the Fiscal Year 2011 Operating Budget on May 20, 2010, and the Mayor signed it on June 1, 2010. The Nineteenth Five-Year Plan was approved by PICA on August 10, 2010. The Nineteenth Five-Year Plan included a temporary 9.9% Real Estate Tax increase through Fiscal Year 2012.

The City's Eighteenth Five-Year Plan (the "Eighteenth Five-Year Plan"), covering Fiscal Years 2010-2014, included a one percent City Sales Tax increase through Fiscal Year 2014 and a partial deferral of the City's pension payment in Fiscal Year 2010 ($150 million) and Fiscal Year 2011 ($80 million) to be paid back in full by Fiscal Year 2014, as permitted under Act 44 of 2009 of the General Assembly of the Commonwealth ("Act 44"). In addition to the deferrals, the City changed the amortization period from 20 years to 30 years and lowered the interest rate assumption from 8.75% to 8.25%. On October 28, 2010, the City's Board of Pensions and Retirement (the "Board of Pensions") voted to further lower the pension fund's annual earnings assumption from 8.25% to 8.15%. This is reflected in subsequent five-year plans through the Twentieth Five-Year Plan. In February of 2012, the Board of Pensions again voted to lower the Municipal Pension Fund's annual earnings assumption from 8.15% to 8.10%; this is reflected in the Twenty-First Five-Year Plan. The Board of Pensions voted to further lower the Municipal

Pension Fund's annual earnings assumption to 7.95% in March 2013; this is reflected in the Twenty-Second Five-Year Plan.

At PICA's request, the Eighteenth Five-Year Plan was revised to include at least $25 million in additional savings or recurring revenues in each year of the Eighteenth Five-Year Plan. PICA approved the revised Eighteenth Five-Year Plan on September 16, 2009, subject to the enactment of the legislation authorizing the increase in the City's sales tax and change in the City's pension fund payments. The Commonwealth enacted such legislation on September 18, 2009.

**Quarterly Reporting to PICA**

The PICA Act requires the City to prepare and submit quarterly reports to PICA so that PICA may determine whether the City is in compliance with the then-current Five-Year Plan. Under the PICA Act, a "variance" is deemed to have occurred as of the end of a reporting period if (i) a net adverse change in the fund balance of a covered fund of more than 1% of the revenues budgeted for such fund for that fiscal year is reasonably projected to occur, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year, or (ii) the actual net cash flows of the City for a covered fund are reasonably projected to be less than 95% of the net cash flows of the City for such covered fund for that fiscal year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year. The Mayor is required to provide a report to PICA that describes actual or current estimates of revenues, expenditures, and cash flows by covered funds compared to budgeted revenues, expenditures, and cash flows by covered funds for each month in the previous quarter and for the year-to-date period from the beginning of the then-current fiscal year of the City to the last day of the fiscal quarter or month, as the case may be, just ended. Each such report is required to explain any variance existing as of such last day.

PICA may not take any action with respect to the City for variances if the City (i) provides a written explanation of the variance that PICA deems reasonable; (ii) proposes remedial action that PICA believes will restore overall compliance with the then-current Five-Year Plan; (iii) provides information in the immediately succeeding quarterly financial report demonstrating to the reasonable satisfaction of PICA that the City is taking remedial action and otherwise complying with the then-current Five-Year Plan; and (iv) submits monthly supplemental reports as required by the PICA Act. PICA last declared a variance in February 2009. It has since been removed and there are no current variances.

**Awards**

For the thirty-third consecutive year, the Government Finance Officers Association of the United States and Canada ("GFOA") awarded its prestigious Certificate of Achievement for Excellence in Financial Reporting ("GFOA Awards") to the City for its CAFR for the fiscal year ended June 30, 2012. The City received this recognition by publishing a report that was well organized and readable and satisfied both generally accepted accounting principles and applicable legal requirements. The City expects to apply for the GFOA Award for its Fiscal Year 2013 CAFR.

## REVENUES OF THE CITY

**General**

In 1932, the General Assembly of the Commonwealth adopted an act (commonly referred to as the Sterling Act) under which the City was permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Prior to 1939, the City relied heavily upon the real estate tax as the mainstay of its revenue system. Acting under the Sterling Act and other legislation, the City has taken various steps over the years to reduce its reliance on real property taxes as a source of income, including: (1) enacting the wage, earnings, and net profits tax in 1939; (2) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (3) requiring under the Home Rule Charter that the water, sewer, and other utility systems be fully self-sustaining; and (4) enacting in 1952 the Mercantile License Tax (a gross receipts tax on business done within the City), which was

replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax (which was renamed the Business Income and Receipts Tax in May 2012).

**Major Revenue Sources**

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table 3 below for revenues by major source for Fiscal Years 2003-2013 and Table 4 below for General Fund tax revenues for Fiscal Years 2007-2013 as well as, in each case, the Adopted Fiscal Year 2014 Budget, current estimates for Fiscal Year 2014 and the Adopted Fiscal Year 2015 Budget. The following descriptions do not take into account revenues in the Non-Debt Related Funds. The tax rates for Fiscal Years 2002 through 2012 are contained in the Fiscal Year 2013 CAFR.

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**Table 3**
**Summary of Principal Operating Funds (Debt Related)**
**Revenues by Major Source**
**Fiscal Years 2003-2015 (Legal Basis)**
**(Amounts in Millions of USD)**

| | General Fund Tax Revenues | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Real Property Taxes[1] | Wage Earnings & Net Profits Taxes[1] | Business Privilege Tax[1] | Sales and Use Tax[1] | Other Taxes[2] | Total Taxes | Water & Wastewater Charges | Airport Charges | Other Locally Generated Charges | Total Local Revenue | Revenue from Other Governments | Revenue from Other City Funds | Total Revenues |
| 2003 | 361.1 | 1,025.1 | 286.1 | 108.0 | 156.3 | 1,936.6 | 329.6 | 219.4 | 327.4 | 2,813.0 | 909.7 | 62.8 | 3,785.5 |
| 2004 | 377.7 | 1,062.6 | 309.2 | 108.0 | 202.2 | 2,059.7 | 383.1 | 235.0 | 207.4 | 2,885.2 | 834.2 | 92.1 | 3,811.5 |
| 2005 | 392.7 | 1,087.3 | 379.5 | 119.9 | 250.9 | 2,230.3 | 419.7 | 246.3 | 200.8 | 3,097.1 | 1,082.4 | 71.6 | 4,251.1 |
| 2006 | 395.8 | 1,125.8 | 415.5 | 127.8 | 304.1 | 2,369.0 | 460.4 | 269.4 | 236.2 | 3,335.0 | 953.1 | 69.9 | 4,358.0 |
| 2007 | 397.5 | 1,182.7 | 436.4 | 132.6 | 286.7 | 2,435.9 | 486.9 | 266.0 | 248.3 | 3,437.1 | 1,063.3 | 77.0 | 4,577.4 |
| 2008 | 402.8 | 1,197.3 | 398.8 | 137.3 | 260.3 | 2,396.5 | 555.0 | 275.3 | 267.5 | 3,494.3 | 1,066.2 | 153.1 [3] | 4,713.6 |
| 2009 | 400.1 | 1,129.2 | 386.0 | 128.2 | 209.3 | 2,252.8 | 484.5 | 291.3 | 258.3 | 3,286.9 | 1,025.4 | 212.7 [4] | 4,525.0 |
| 2010 | 402.2 | 1,128.7 | 364.7 | 207.1[5] | 213.9 | 2,316.6 | 516.4 | 290.2 | 224.5 | 3,347.7 | 1,110.7[6] | 82.7 | 4,541.3 |
| 2011 | 482.7[7] | 1,143.1 | 376.9 | 244.6 | 211.8 | 2,459.1 | 537.5 | 302.7 | 280.2 | 3,579.5 | 1,100.0 | 91.1 | 4,770.7 |
| 2012[8] | 500.7 | 1,211.4 | 389.4 | 253.5 | 215.4 | 2,570.4 | 560.3 | 293.8 | 256.8 | 3,681.3 | 753.3 | 96.7 | 4,531.3 |
| 2013[9] | 540.5 | 1,221.5 | 450.9 | 257.6 | 262.9 | 2,733.5 | 572.0 | 301.1 | 266.2 | 3,872.8 | 685.7 | 111.2 | 4,669.7 |
| 2014 (Adopted Budget)[10] | 536.6 | 1,286.9 | 410.0 | 272.6 | 256.5 | 2,762.6 | 606.8 | 408.3 | 266.4 | 4,044.1 | 662.3 | 175.2 | 4,881.6 |
| 2014 (Current Estimate)[11] | 533.2 | 1,269.9 | 461.3 | 264.9 | 259.4 | 2,788.7 | 603.7 | 373.3 | 308.6 | 4,074.4 | 711.6 | 147.1 | 4,933.1 |
| 2015 (Adopted Budget)[11,12] | 547.4 | 1,315.2 | 453.2 | 154.6 | 277.8 | 2,748.2 | 631.7 | 415.9 | 971.9 | 4,767.7 | 679.5 | 180.4 | 5,627.6 |

(1) See Table 7 in the Fiscal Year 2013 CAFR and "REVENUES OF THE CITY" herein for Tax Rates. As of May 1, 2012, the Business Privilege Tax was renamed the Business Income and Receipts Tax.
(2) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
(3) In Fiscal Year 2008, there was an increase of $73 million in payment from Water Fund to Water Residual Fund.
(4) In Fiscal Year 2009, there was an $86 million payment from the Wage Tax Reduction Fund.
(5) Reflects 1% increase effective October 8, 2009 and originally set to expire June 30, 2014. See "REVENUES OF THE CITY-Sales and Use Tax."
(6) In Fiscal Year 2010, the Wage Tax Reduction payment is shown in the Revenue from Other Governments column.
(7) Reflects a Real Estate Tax increase of 9.9%.
(8) The reduction in Revenue from Other Governments in Fiscal Year 2012 is largely the result of the transfer of the majority of DHS revenue and obligations to the Grants Revenue Fund.
(9) Reflects an 8.2% increase in the City Real Estate Tax (equating to 3.6% of the combined City and School District real estate taxes). The increased revenue provides an increase of $20 million in the City's annual grant to the School District..
(10) From the Adopted Fiscal Year 2014 Budget .
(11) From the Adopted Fiscal Year 2015 Budget.
(12) Fiscal Year 2015 includes $700 million in General Fund Locally Generated Non-Tax Revenue from the proposed sale of PGW.

Figures may not add up due to rounding.

## Table 4
## General Fund Tax Revenues[1]
## Fiscal Years 2007-2015
## (Amounts in Millions of USD)

| | Actual 2007 | Actual 2008 | Actual 2009 | Actual 2010 | Actual 2011 | Actual 2012 | Actual [6] 2013 | Adopted Budget[7] 2014 | Current Estimate[8] 2014 | Adopted Budget[8] 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Real Property Taxes | | | | | | | | | | |
| Current | 367.2 | 366.5 | 365.6 | 364.3 | 454.7[5] | 464.4 | 504.2 | 492.4 | 488.9 | 503.2 |
| Prior | 30.3 | 36.3 | 34.4 | 37.9 | 28.0 | 36.3 | 36.3 | 44.2 | 44.2 | 44.2 |
| Total | 397.5 | 402.8 | 400.0 | 402.2 | 482.7 | 500.7 | 540.5 | 536.6 | 533.2 | 547.4 |
| Wage and Earnings Tax[2] | | | | | | | | | | |
| Current | 1,162.4 | 1,176.5 | 1,105.9 | 1,102.3 | 1,127.4 | 1,192.2 | 1,219.5 | 1,269.9 | 1,246.2 | 1,290.4 |
| Prior | 5.1 | 8.3 | 11.1 | 11.9 | 6.9 | 4.1 | 2.0 | 4.2 | 4.2 | 4.2 |
| Total | 1,167.5 | 1,184.8 | 1,117.0 | 1,114.2 | 1,134.3 | 1,196.3 | 1,221.5 | 1,274.1 | 1,250.5 | 1,294.6 |
| Business Taxes | | | | | | | | | | |
| Business Privilege[3] | | | | | | | | | | |
| Current & Prior | 436.4 | 398.8 | 386.0 | 364.7 | 376.9 | 389.4 | 450.9 | 410.0 | 461.3 | 453.2 |
| Net Profits Tax | | | | | | | | | | |
| Current | 10.9 | 9.1 | 9.5 | 12.1 | 5.7 | 12.2 | 17.2 | 10.3 | 16.9 | 18.0 |
| Prior | 4.3 | 3.4 | 2.7 | 2.4 | 3.1 | 2.9 | 1.9 | 2.5 | 2.5 | 2.5 |
| Subtotal Net Profits Tax | 15.3 | 12.5 | 12.2 | 14.5 | 8.8 | 15.1 | 19.2 | 12.8 | 19.4 | 20.5 |
| Total Business Taxes | 451.6 | 411.3 | 398.2 | 379.2 | 385.8 | 404.5 | 470.1 | 422.8 | 480.7 | 473.7 |
| Other Taxes | | | | | | | | | | |
| Sales and Use Tax | 132.6 | 137.3 | 128.3 | 207.1[4] | 244.6 | 253.5 | 257.6 | 272.6 | 264.9 | 154.6 |
| Amusement Tax | 16.4 | 18.0 | 21.4 | 21.8 | 20.8 | 21.9 | 19.1 | 20.5 | 20.5 | 20.9 |
| Real Property Transfer Tax | 217.3 | 184.0 | 115.1 | 119.2 | 116.6 | 119.4 | 148.0 | 157.6 | 160.5 | 176.6 |
| Parking Taxes | 50.3 | 55.5 | 70.4 | 70.5 | 71.6 | 70.9 | 73.3 | 75.0 | 75.0 | 76.9 |
| Other Taxes | 2.6 | 2.8 | 2.4 | 2.4 | 2.7 | 3.2 | 3.4 | 3.4 | 3.4 | 3.5 |
| Subtotal Other Taxes | 419.2 | 397.6 | 337.6 | 421.0 | 456.3 | 468.9 | 501.3 | 529.1 | 524.4 | 432.5 |
| TOTAL TAXES | 2,435.9 | 2,396.5 | 2,252.8 | 2,316.6 | 2,459.1 | 2,570.4 | 2,733.5 | 2,762.6 | 2,788.7 | 2,748.2 |

(1) See Table 7 in the Fiscal Year 2013 CAFR for Tax Rates. As of May 1, 2012, the Business Privilege Tax was renamed the Business Income and Receipts Tax.
(2) Beginning in Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Tax from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA bonds and the PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments.
(3) Renamed the Business Income and Receipts Tax as of May 1, 2012.
(4) Effective October 8, 2009, there was a 1% increase to the City Sales tax, originally set to expire June 30, 2014. See "REVENUES OF THE CITY-Sales and Use Tax."
(5) Reflects a Real Estate Tax increase of 9.9%.
(6) Reflects an 8.2% increase in the City Real Estate Tax (equating to 3.6% of the combined City and School District real estate taxes ). The increased revenue provides an increase of $20 million in the City's annual grant to the School District.
(7) From the Adopted Fiscal Year 2014 Budget.
(8) From the Adopted Fiscal Year 2015 Budget.

Figures may not add up due to rounding.

**Wage, Earnings, and Net Profits Taxes**

The largest tax revenue source (comprising 45.4% of all tax revenues based on Fiscal Year 2013) is the wage, earnings, and net profits tax. The wage and earnings tax is collected from all employees working within City limits, and all City residents regardless of work location. The net profits tax is collected on the net profits from the operation of a trade, business, profession, enterprise or other activity conducted by individuals, partnerships, associations or estates and trusts within the City limits. In Fiscal Year 1992, the City reduced the City wage, earnings, and net profits tax on City residents by 1.5% and authorized and imposed the PICA Tax on wages, earnings and net profits at the rate of 1.5% on City residents. See "DEBT OF THE CITY-- PICA Bonds" for a description of the pledge by PICA of the PICA Tax to secure PICA's bonds. The table below sets forth the resident and non-resident wage, earnings and net profits tax rates for Fiscal Years 2003-2015, and the annual wage, earnings, and net profits tax receipts in Fiscal Years 2003-2013 and the Adopted Budget and current estimate for Fiscal Year 2014 and the Adopted Budget for Fiscal Year 2015.

**Table 5**
**Summary of Wage, Earnings and Net Profits Tax Rates and Receipts**

| Fiscal Year | Resident Wage, Earnings and Net Profits Tax Rates[1] | Non-Resident Wage, Earnings and Net Profits Tax Rates | Annual Wage, Earnings and Net Profits Tax Receipts (including PICA Tax) (Amounts in Millions of USD) |
|---|---|---|---|
| 2003 | 4.5000 | 3.9127 | 1,306.6 |
| 2004 | 4.4625 | 3.8801 | 1,347.6 |
| 2005 | 4.4625 (Jul. 1) | 3.8801 (Jul. 1) | 1,387.5 |
| | 4.3310 (Jan. 1) | 3.8197 (Jan. 1) | |
| 2006 | 4.3310 (Jul. 1) | 3.8197 (Jul. 1) | 1,435.6 |
| | 4.3010 (Jan. 1) | 3.7716 (Jan. 1) | |
| 2007 | 4.3010 (Jul. 1) | 3.7716 (Jul. 1) | 1,510.6 |
| | 4.2600 (Jan. 1) | 3.7557 (Jan. 1) | |
| 2008 | 4.2600 (Jul. 1) | 3.7557 (Jul. 1) | 1,527.5 |
| | 4.2190 (Jan. 1) | 3.7242 (Jan. 1) | |
| 2009[2] | 3.9800 (Jul. 1) | 3.5392 (Jul. 1) | 1,477.8 |
| | 3.9300 (Jan. 1) | 3.5000 (Jan. 1) | |
| 2010 | 3.9296 | 3.4997 | 1,472.0 |
| 2011 | 3.9280 | 3.4985 | 1,501.8 |
| 2012 | 3.9280 | 3.4985 | 1,568.9 |
| 2013 | 3.9280 | 3.4985 | 1,617.2 |
| 2014 | 3.9240 | 3.4950 | 1,677.9 Adopted Budget[3] |
| 2014 | 3.9240 | 3.4950 | 1,659.2 Current Estimate[4] |
| 2015 | 3.9200 | 3.4915 | 1,718.9Adopted Budget[4] |

(1) Includes PICA Tax.
(2) There were two rate decreases during Fiscal Year 2009.
(3) From the Adopted Fiscal Year 2014 Budget.
(4) From the Adopted Fiscal Year 2015 Budget.

Commonwealth funding from gaming revenues is mandated by statute to be used to reduce the resident and nonresident wage tax rate. Gaming revenues were first used to reduce the wage tax rates in Fiscal Year 2009. Revenues from gaming revenues were $86.545 million in Fiscal Year 2009, $86.270 million in Fiscal Year 2010, $86.277 million in Fiscal Year 2011, $86.273 million in Fiscal Year 2012 and $86.269 million for Fiscal Year 2013. The amount estimated in the Adopted Fiscal Year 2014 Budget is $86.269 million and the current estimate is $86.283 million and the Adopted Fiscal Year 2015 Budget is $86.283 million. Accordingly, the wage tax rates in Fiscal Years 2009, 2010, 2011, 2012, 2013, 2014 and 2015 reflect a rate reduction due to these revenues.

In the Seventeenth Five-Year Plan, the Mayor approved further reductions in the wage, earnings, and net profits tax rate for each of the Fiscal Years 2009-2013. The Seventeenth Five-Year Plan approved reducing the wage

tax from the Fiscal Year 2008 level of 4.2190% for residents and 3.7242% for non-residents to 3.60% for residents and 3.25% for non-residents by Fiscal Year 2013. These reduced rates include rate reductions funded with Commonwealth funds from gaming proceeds. In Fiscal Year 2009 there were two rate reductions: one that took effect July 1, 2008 and the other that took effect January 1, 2009. The Eighteenth Five-Year Plan suspended future City-funded rate reductions until Fiscal Year 2015. The Nineteenth, Twentieth, Twenty-First, Twenty-Second and the Twenty-Third Five-Year Plans all include resumption of City-funded rate reductions in Fiscal Year 2014.

**Business Income and Receipts Tax**

In 1984, the Commonwealth passed legislation known as The First Class City Business Tax Reform Act of 1984 authorizing the City Council of Philadelphia to impose a business tax measured by Gross Receipts, Net Income or the combination of the two. The same year, the City Council by ordinance repealed the Mercantile License Tax and the General Business Tax and imposed the Business Privilege Tax. As of May 1, 2012 the Business Privilege Tax was renamed the Business Income and Receipts Tax ("BIRT"). Rental activities are usually considered to be business activities. Every estate or trust (whether the fiduciary is an individual or a corporation) must file a BIRT return if the estate or trust is engaged in any business or activity for profit within the City of Philadelphia.

The BIRT allows for particular allocations and tax computation for regulated industries, public utilities, manufacturers, wholesalers and retailers. There are also credit programs where meeting the requirement of the program allows for a credit against the BIRT. All persons subject to both the BIRT and the Net Profits Tax are entitled to apply a credit of 60% of the net income portion of their BIRT liability against what is due on the Net Profits Tax to the maximum of the Net Profit Tax liability for that Tax Year.

In Fiscal Year 1996, the City began a program of reducing the gross receipts portion of the BIRT with plans of eventually eliminating the gross receipts portion of the tax. In November 2011, legislation was enacted to freeze the gross receipts portion and commence reductions in the net income portion of the BIRT to take effect calendar year 2014 with changes phasing in through calendar year 2023. These changes altered the prior proposed schedule of rate reductions to the BIRT. The City Council has approved certain changes to the BIRT, further described below.

**Table 6**
**Summary of Business Income and Receipts Tax Rates**

| Tax Year | Gross Receipts | Net Income |
|---|---|---|
| 2003 | 2.300 mills | 6.50% |
| 2004 | 2.100 mills | 6.50% |
| 2005 | 1.900 mills | 6.50% |
| 2006 | 1.665 mills | 6.50% |
| 2007 | 1.540 mills | 6.50% |
| 2008 | 1.415 mills | 6.45% |
| 2009 | 1.415 mills | 6.45% |
| 2010 | 1.415 mills | 6.45% |
| 2011 | 1.415 mills | 6.45% |
| 2012 | 1.415 mills | 6.45% |
| 2013 | 1.415 mills | 6.45% |
| 2014 | 1.415 mills | 6.43% |
| 2015 | 1.415 mills | 6.41% |
| 2016 | 1.415 mills | 6.39% |
| 2017 | 1.415 mills | 6.35% |
| 2018 | 1.415 mills | 6.30% |
| 2019 | 1.415 mills | 6.25% |
| 2020 | 1.415 mills | 6.20% |
| 2021 | 1.415 mills | 6.15% |
| 2022 | 1.415 mills | 6.10% |
| 2023 | 1.415 mills | 6.00% |

In addition, the 2011 legislative changes passed by City Council and signed by the Mayor incorporated several changes intended to help businesses grow in the City. These tax changes intend to help small and medium sized businesses and spur lower costs associated with starting a new business in order to stimulate new business formation and increase employment in the City. The Commercial Activity License fee for all businesses will be eliminated in 2014. In addition, business taxes for the first two years of operations for all new businesses that employ at least three employees in their first year and six in their second were eliminated beginning in 2012. These legislative changes also provide for across the board exclusions on the gross receipts portion for all businesses scaled in over a three-year period beginning in 2014 and reductions in the net income portion of the BIRT. When the exclusions are fully phased in, the first $100,000 of receipts will be excluded. Lastly, these legislative changes call for implementation of single sales factor apportionment in 2015. This enables businesses to pay BIRT based solely on sales in the City, not on property or payroll in the City. By taxing property and payroll, the BIRT previously had provided disincentives to firms to locate in the City. A Council committee gave a favorable recommendation to legislation that would eliminate the net income portion of the BIRT and increase the gross receipts side to make up for the lost revenue. The bill is being held pending the completion of an analysis by an outside consultant of the economic impact of the proposed legislation. City Council members are now discussing desired impacts of the proposed legislation before an RFP is issued for a consultant.

**Real Property Taxes Assessment and Collection**

A Real Estate Tax on all taxable real property is levied on the assessed value of residential and commercial property located within the City's boundaries as assessed by the Office of Property Assessment ("OPA"). Real Estate taxes are imposed by the City and the School District with the millage split between the two taxes changing over the years. Due to economic difficulties in 2011, real estate taxes were raised by 9.9%. In calendar year 2012, the School District tax was increased. For calendar year 2013, the City real estate tax was raised to provide additional funding to the School District by way of an increased grant to the School District. Taxpayers receive a 1% discount on current real estate taxes paid before March 1. The Department of Revenue also offers special payment plans covering current year taxes, including plans for low income households and low income senior citizen households.

The tax rates for tax years 2003-2014 are set forth below:

**Table 7**
**Real Property Tax History and Allocation**

| Calendar Year | City | School | Total |
|---|---|---|---|
| 2003-2007 | 3.474% | 4.790% | 8.264% |
| 2008-2010 | 3.305% | 4.959% | 8.264% |
| 2011 | 4.123% | 4.959% | 9.082% |
| 2012 | 4.123% | 5.309% | 9.432% |
| 2013 | 4.462% | 5.309% | 9.771% |
| 2014 | 0.6018% | 0.7382% | 1.340% |

The City has completed its Actual Value Initiative (AVI) whereby all properties in the City will be assessed at actual market values for tax years 2014 and forward. Pennsylvania's Act 131 (as defined below) directs the City to adopt AVI for real estate taxes for 2014 and thereafter. This was the City's first city wide reassessment in decades, and it is designed to ensure that property owners have fair, accurate, and more easily understood real estate tax bills. Cumulative assessed values have increased dramatically as a result of AVI because before the reassessment, properties were assessed at only a fraction of what is considered to be the actual market values, and because many increases in market values throughout the City were not captured in assessments previously. As described below, City Council has enacted an ordinance to adjust millage rates to account for the changes in assessed value due to AVI. The Office of Property Assessment mailed notices of revised property values in February 2013.

The table below shows the differences in the assessed value of properties used for tax year 2013 real estate taxes and the assessed values used for tax year 2014 real estate taxes following the reassessment and implementation of AVI.

**Table 8**
**Assessed Property Values 2013 and 2014**

| | Tax Year 2013* | | | |
|---|---|---|---|---|
| **Category** | **Assessed Value** | **Taxable Assessed Value** | **Exempt Assessed Value** | **Number of Parcels** |
| Residential | $23,480,956,634 | $20,253,095,331 | $ 3,227,861,303 | 456,852 |
| Commercial | 21,414,689,601 | 8,086,881,511 | 13,327,808,090 | 15,333 |
| Industrial | 2,367,255,600 | 1,635,367,256 | 731,888,344 | 4,729 |
| Hotels and Apartments | 7,312,672,990 | 5,803,784,850 | 1,508,888,140 | 41,339 |
| Stores with Dwellings | 1,013,104,334 | 907,265,169 | 105,839,165 | 15,199 |
| Vacant Land | 1,226,885,260 | 683,978,425 | 542,906,835 | 46,086 |
| Total | $56,815,564,419 | $37,370,372,542 | $19,445,191,877 | 579,538 |

* Taxes applied against 2011 Assessed Value as described under "Assessment and Collection of Real and Personal Property Taxes."

| | Tax Year 2014* | | | |
|---|---|---|---|---|
| **Category** | **Assessed Value** | **Taxable Assessed Value** | **Exempt Assessed Value** | **Number of Parcels** |
| Residential | $67,031,300,900 | $62,124,464,380 | $ 4,906,836,520 | 471,197 |
| Commercial | 43,593,893,400 | 17,260,794,497 | 26,333,098,903 | 15,041 |
| Industrial | 3,535,800,300 | 2,847,170,296 | 688,630,004 | 4,544 |
| Hotels and Apartments | 16,022,031,200 | 12,655,457,633 | 3,366,573,567 | 27,657 |
| Stores with Dwellings | 3,447,991,700 | 3,346,130,697 | 101,861,003 | 15,150 |
| Vacant Land | 3,773,163,500 | 1,707,997,271 | 2,065,166,229 | 46,109 |
| Total | $137,404,181,000 | $99,942,014,774 | $37,462,166,226 | 579,698 |

* As of January 2014. Values do not reflect impact of FLRs (as defined herein) and formal appeals resolved subsequently.

For tax year 2014, the OPA received 51,290 requests for first level reviews ("FLR's"), an informal review process to speed review and resolution of some assessment matters prior to the formal BRT appeal process. As a result of the FLRs, to date (as of March 10, 2014), the total taxable market value has been reduced by $1,557,887,777, but there are still several thousand FLRs that have not yet been finalized. There have been 23,491 timely formal appeals to the Board of Revision of Taxes, but less than 2,000 have been disposed of as of March 10, 2014. An estimate of the effect of these appeals on total taxable assessed value cannot be made until a larger percentage of the appeals are resolved.

On October 24, 2012, the Governor approved Act 160 ("Act 160") which permits downward adjustments to School District property tax and use and occupancy tax rates, solely to offset the higher assessed values anticipated under AVI, and only to the extent the yield from such lower rates is no lower than the highest tax yield in the previous three years. Act 160 also precludes the School District from using its direct authority to levy real estate taxes, separately granted by the General Assembly of the Commonwealth, but only to the extent the City authorizes School District real estate taxes yielding an amount not lower than total real estate taxes yielded in the year prior to the year of the revision of assessments, adjusted to account for increases in assessed value since the first year of revision.

The City Council and the Mayor have enacted a combined City and School District property tax rate for 2014 of 1.34%, down from 9.7710% in 2013 in order to generate approximately the same current year revenue in Fiscal Year 2014 as in Fiscal Year 2013. The City tax is 0.6018% (down from 4.4620% in 2013) and the School District tax is 0.7382% (down from 5.3090% in 2013).

The rate is set to ensure that AVI results in the collection of approximately the same amount of current year revenue in both Fiscal Year 2013 and Fiscal Year 2014. Nonetheless, there have been changes in property taxes for many individual property owners. Under the old assessment system, some properties were valued closer to their actual value than other properties. Properties that had been valued closer to their actual value have seen smaller increases in assessments and when those assessment changes are coupled with the much lower property tax rate, they will produce tax decreases. On the other hand, properties that were relatively undervalued will see increases, a small percent of which are substantial. In order to mitigate the hardship that could be created by those large increases, the ordinance imposing the new real estate tax rates includes a homestead exemption of $30,000 for all residential owner-occupants. The new property tax rates take into account the impact of the homestead exemption and other anticipated relief measures. Fiscal Year 2014 current real estate tax revenue for the City is projected to be $488.9 million (excluding delinquent collections), lower than the Adopted Fiscal Year 2014 Budget amount of $492.4 million and the $504.2 million collected in Fiscal Year 2013. Both the Fiscal Year 2014 estimate and the Adopted Fiscal Year 2014 Budget estimate reflect the effect of the new AVI and projected related appeal losses. The City is offering a program that provides relief for long term owner occupants whose property value has at least tripled and who meets the income requirements. Under the legislation, its cost is capped at $20 million and recouping that $20 million was assumed in the 1.34% rate.

Philadelphia real estate tax ("Tax") is due by March 31 of the year for which the tax is imposed. Tax that remains unpaid after that date is overdue and begins to accrue additions (1.5% per month) for each additional month it remains unpaid until the Tax becomes delinquent January 1 of the following year.

Recent City Council legislation intended to ease the transition to AVI provides, for Tax Year 2014 only, that residential and commercial property owners who appeal their new property assessments need only pay the prior year's amount of Tax and (if applicable) Use and Occupancy Tax, pending the assessment appeal. Interest and penalties will not accrue on the additional 2014 tax liability during the appeal, whether or not the appeal is ultimately successful. See City Council Bill Nos. 130308-A (became law Sept. 6, 2013); 130591 (became law October. 31, 2013); 130592 (became law October. 31, 2013). The City has estimated the net loss (appeal wins and appeal losses) in City Real Estate Tax revenues, after the effect of the First Level Reviews ("FLRs") as further described below, to be approximately $18.9 million in Fiscal Year 2014. This reduction in property tax revenues is included in the most current Fiscal Year 2014 revenue projection contained herein. The City anticipates that a majority of this revenue will be recovered in Fiscal Year 2015 when all the appeals have been heard.

Historically the City did not commence collection of Real Estate Taxes while they were "Overdue," between the March 31st due date and January 1 when they became "delinquent". In late 2010, the Revenue Department sent a letter to taxpayers who had overdue taxes, but had paid all prior years, to explain that if they did not pay by the end of the year, the addition on their Tax would be capitalized (i.e. become part of the principal) and their Tax liability would become a lien on the property. This effort has been repeated each year since and has resulted in significant collections and reduction of expenses that would otherwise be incurred for further collection efforts. Also in 2012 and 2013, the Revenue Department and Law Department hired two outside collection firms to collect overdue Tax with an Outbound Calling Campaign. This project has been extremely successful, contributing to a decrease in first time real estate delinquencies and generating a total of approximately $17,000,000 in (Overdue) collection in 2013 alone. The City is continuing this practice and pursuing a number of other initiatives to improve collections, including sequestration of delinquent properties occupied by commercial tenants.

**Historical Assessment and Collection and Appeal of Real Property Taxes**

Historically, the Board of Revision of Taxes (the "BRT") was responsible for both the property assessment and assessment appeals functions for the City. The BRT consists of a seven-member panel that is appointed by the Judges of the First Judicial District of Pennsylvania. On December 17, 2009, City Council passed legislation that would disband the BRT and replace it with separate offices for assessments and appeals, subject to the approval of City voters. In the May 10, 2010, primary election voters approved the separation of the assessment and appeals functions. On June 16, 2010 a new Chief Assessment Officer, Rich McKeithen, was appointed by the Mayor and approved by City Council on June 17, 2010 to lead the new Office of Property Assessment.

According to the legislation, the BRT would cease to exist at the end of September 2010 and the changes described above would take effect; however, the Pennsylvania Supreme Court ruled on September 20, 2010 that the

City could not abolish the existing appeals board because only the General Assembly of the Commonwealth has the authority to do so. Therefore, the BRT remains in place as the property appeals board; however, the separation of the property assessment function from the property appeals function proceeds as per the original legislation.

Beginning on October 1, 2010, the new Office of Property Assessment was formally created to conduct the annual assessment of all real estate located within the City. The Office of Property Assessment has now reassessed all properties throughout the City and certified the tax year 2014 values. Additionally, the Office of Property Assessment no longer employs a fractional assessment system, and for tax year 2014 all assessments are at 100% of actual value.

According to the existing appeals mechanism, the BRT has the authority to increase or decrease the property valuations contained in the return of the assessors in order that such valuations conform with law. After all changes in property assessments, and after all assessment appeals, assessments are certified and the results provided to the Department of Revenue.

Real Estate Taxes, if paid by February 28, are discounted by 1%. If the tax is paid during the month of March, the gross amount of tax is due. If the tax is not paid by the last day of March, tax additions of 1.5% per month are added to the tax for each month that the tax remains unpaid through the end of the calendar year. Beginning in January of the succeeding year, the 15% tax additions that accumulated during the last ten months of the preceding years are capitalized and the tax is registered delinquent. Interest is then computed on the new tax base at a rate of 0.5% per month until the real estate tax is fully paid. Commencing in February of the second year, an additional 1% per month penalty is assessed for a maximum of seven months. See Table 9 for assessed and market values of taxable realty in the City and for levies and rates of collections.

For tax year 2013 and earlier tax years, real estate tax bills were calculated as follows: certified fair market value multiplied by established predetermined ratio (EPR) multiplied by tax rate. The last applicable EPR was 32%. However, for properties that are the subject of tax assessment appeals, the EPR is generally replaced with the common level ratio (CLR) issued by the State Tax Equalization Board (STEB) if the CLR differs from the EPR by more than 15%. STEB has issued a final 2012 CLR of 25.2%, revised upwards from 18.1% following objections from the City and School District. This higher CLR still differs from the EPR by more than 15%.

On July 5, 2012, the Governor approved Act 131 ("Act 131"). Act 131 provides that 2013 real estate taxes are based on the 2011 assessed values, with adjustments for construction, demolition and other dramatic changes in condition. Act 131 further directs the City to adopt AVI for real estate taxes for 2014 and thereafter. See "Real Property Taxes." For tax year 2013 only, Act 131 provides that real estate tax assessment appeals are decided using the EPR, regardless of the CLR. Act 131 also permits the City to provide the same "Homestead Exemption" from real property taxes allowed by other jurisdictions, but does not require the City to provide such exemptions, nor does it set an amount for such exemption. The legislation allows for an exemption from real estate property tax for up to fifty percent (50%) of the median assessed value of homesteads. Partner property tax legislation passed by City Council includes a homestead exemption of $30,000 starting in tax year 2014. Additionally, property tax legislation was passed allowing for tax exemptions for certain longtime owner-occupants of residential properties starting in tax year 2014.

Beginning in tax year 2014 and thereafter, real estate tax bills are being levied based on AVI, as described under "Real Property Taxes." For the first two years following a county reassessment such as AVI, the CLR is irrelevant for real estate tax assessment appeals. In 2016, the CLR will again be relevant to Philadelphia real estate tax assessment appeals as described above.

For tax year 2014, the OPA received 51,290 FLRs. As a result of the FLRs, to date (as of March 10, 2014), the total taxable market value has been reduced by $1,557,887,777, but there are still several thousand FLRs that have not yet been finalized. There have been 23,491 timely formal appeals to the BRT, but less than 2,000 have been disposed of as of March 10, 2014. An estimate of the effect of these appeals on total taxable assessed value cannot be made until a larger percentage of the appeals are resolved.

**Table 9**
**City of Philadelphia**
**Real Property Taxes Levied and Collected**
**For the Calendar Years 2004 through 2013**
**(Amounts in Millions of USD)**

| Calendar year | Taxes Levied Based on Original Assessment(1) | Taxes Levied Based on Adjusted Assessment(2) | Collections in the Calendar Year of Levy(3) | Percentage Collected in the Calendar Year of Levy | Collections in Subsequent Years(4) | Total Collections to Date: All Years | Percentage Collected to Date: All Years |
|---|---|---|---|---|---|---|---|
| 2004 | $372.5 | NA | $340.9 | 91.5% | $26.7 | $367.6 | 98.7% |
| 2005 | $373.5 | NA | $350.3 | 93.8% | $22.5 | $372.8 | 99.8% |
| 2006 | $385.6 | NA | $339.6 | 88.1% | $23.7 | $363.3 | 94.2% |
| 2007 | $391.7 | NA | $347.5 | 88.7% | $24.5 | $372.0 | 95.0% |
| 2008 | $390.2 | NA | $346.4 | 88.8% | $26.3 | $372.7 | 95.5% |
| 2009 | $396.5 | NA | $315.4 | 79.5% | $44.5 | $359.9 | 90.8% |
| 2010 | $405.8 | NA | $353.7 | 87.2% | $37.7 | $391.4 | 96.5% |
| 2011 | $509.1 | NA | $440.9 | 86.6% | $38.1 | $479.0 | 94.1% |
| 2012 | $508.5 | $492.5 | $459.2 | 93.2% | $6.4 | $465.6 | 94.5% |
| 2013 | $554.0 | $540.7 | $487.1 | 90.1% | N/A | $487.1 | 90.1% |

(1) Taxes are levied on a calendar year basis. They are due on March 31st.
(2) Adjustments include assessment appeals, a 1% discount for payment in full by the end of February, the senior citizen tax discount, and the tax increment financing (TIF) return of tax paid.
(3) For 2013, "collections in the calendar year of levy" does not include the full 12 months; it only includes collections thru the end of June 2013.
(4) Includes payments from capitalization charges. This capitalization occurs one time, after the end of the first year of the levy, on any unpaid balances.

Source: Fiscal Year 2013 CAFR

Note- Real Estate taxes are levied by the City and the School District. While this table reflects City General Fund real estate tax revenues exclusively, the School District real estate tax collection rates are the same.

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**Table 10**
**Principal Property Taxpayers**
**2014 and 2005**
**(Amounts in Millions of USD)**

| | 2014 | | 2005 | |
|---|---|---|---|---|
| Taxpayer | Assessment* | Percentage of Total Assessments | Assessment* | Percentage of Total Assessments |
| HUB Properties Trust | 265.7 | 0.27 | 55.0 | 0.51 |
| Nine Penn Center Associates | 232.6 | 0.23 | 54.1 | 0.50 |
| Phila Liberty Place ELP | 207.7 | 0.21 | 49.6 | 0.46 |
| Philadelphia Market Street | 203.7 | 0.20 | 32.9 | 0.30 |
| Tenet Health Systems Hahnemann | 192.1 | 0.19 | 32.0 | 0.29 |
| Commerce Square Partners | 178.2 | 0.18 | 30.5 | 0.28 |
| Maguire / Thomas | 170.1 | 0.17 | 43.3 | 0.40 |
| NNN 1818 Market Street 37 | 170.0 | 0.17 | 22.2 | 0.20 |
| Franklin Mills Associates | 163.2 | 0.17 | 30.3 | 0.28 |
| Brandywine Operating Partners | 159.4 | 0.16 | 28.8 | 0.27 |
| Total | 1,942.7 | 1.97 | 378.7 | 3.49 |
| Total Taxable Assessments** | 98,522.4 | | 10,864.9 | |

*Assessment Values rounded to the nearest $100,000 and only include the largest assessed property for each taxpayer; additional properties owned by the same taxpayer are not included.
**Total Taxable Assessment as of January 6, 2014.
Source: City of Philadelphia, Office of Property Assessment.

**Table 11**
**Ten Largest Certified Market and Assessment Values**
**of Tax-Abated Properties**
**Certified Values for 2014**
**(Amounts in Millions of USD)**

| Location | 2014 Certified Market Value | Total Assessment | Total Taxable Assessment | Total Exempt Assessment | Exempt Thru Tax Year |
|---|---|---|---|---|---|
| 1701 John F Kennedy Blvd. | 212.5 | 212.5 | 9.1 | 203.4 | 2017 |
| 2929L Arch St. | 160.7 | 160.7 | 0 | 160.7 | 2015 |
| 1001 N Delaware Ave. | 150.9 | 150.9 | 39.3 | 111.6 | 2020 |
| 1500 Spring Garden St. | 138.7 | 138.7 | 27.8 | 110.9 | 2020 |
| 2323 Race St. | 72.4 | 72.4 | 2.8 | 69.6 | 2016 |
| 3401 Chestnut St. | 64.6 | 64.6 | 3.4 | 61.2 | 2017 |
| 1601 N 15th St. | 64.2 | 64.2 | 0.5 | 63.7 | 2017 |
| 907-37 Market St. | 61.0 | 61.0 | 41.4 | 19.6 | 2016 |
| 1327-39 Chestnut St. | 58.5 | 58.5 | 56.4 | 2.1 | 2016 |
| 630-40 N Broad St. | 55.5 | 55.5 | 9.6 | 45.9 | 2016 |

Source: City of Philadelphia, Office of Property Assessment.

### Sales and Use Tax

The City adopted a 1% sales and use tax (the "City Sales Tax") for City general revenue purposes effective beginning in Fiscal Year 1992. The Commonwealth authorized the levy of this tax under the PICA Act. Vendors are required to pay this sales tax to the Commonwealth Department of Revenue together with the similar Commonwealth sales and use tax. The State Treasurer deposits the collections of this tax in a special fund and

disburses the collections, including any investment income earned thereon, less administrative fees of the Commonwealth Department of Revenue, to the City on a monthly basis.

The City Sales Tax is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. The City Sales Tax became effective September 28, 1991 and is collected for the City by the Commonwealth Department of Revenue. The Fiscal Year 2010 budget provided an increase to 2% from the then-current 1% rate. The General Assembly of the Commonwealth enacted legislation authorizing this increase effective October 8, 2009, through June 30, 2014. The Eighteenth Five-Year Plan, the Nineteenth Five-Year Plan, the Twentieth Five-Year Plan, and the Twenty-First Five-Year Plan all assumed this temporary increase would sunset on June 30, 2014. The final Twenty-Second Five-Year Plan approved by PICA assumed the Sales Tax would be extended and would no longer be temporary according to the legislation enacted by the State Legislature. The proposed Twenty-Third Five-Year Plan makes the same assumption, although none of the tax revenues are directed to the General Fund.

In July 2013, the General Assembly of the Commonwealth enacted legislation authorizing the implementation of a new, permanent 1% City Sales Tax to be effective July 1, 2014, which is the same date as the expiration of the temporary 1% Sales Tax. The new 1% Sales Tax was authorized by City Council and signed into law by Mayor Nutter on June 12, 2014, and became effective on July 1, 2014. As directed by Commonwealth statute, the 1% Sales Tax rate increase shall be applied as follows: (1) the first $120 million collected will be paid to the School District; (2) for Fiscal Years 2015 through 2018, the next $15 million collected may be applied to payment of debt service on obligations to be issued by the City for the benefit of the School District; and (3) the remainder will be paid to the City pursuant to Act 205 for application to the Municipal Pension Fund.

On June 25, 2014, the City issued its $27,275,000 City Service Agreement Revenue Bonds, Series 2014A through PAID to fund a portion of the School District's fiscal year 2014 operating deficit, which the City expects to repay from Sales Tax receipts in Fiscal Years 2015 through 2018. In addition, an ordinance had been introduced in City Council that, if enacted, would authorize the issuance of up to $30,000,000 of additional bonds to fund a portion of the School District's operating budget which may be repaid from Sales Tax receipts in Fiscal Years 2015 through 2018. The City expects the $15 million portion of the 1% sales tax revenues allocated in fiscal years 2015-2018 as described above, will be sufficient to pay the debt service on both series of bonds, although it has not and does not expect to pledge them. No assurance is or can be given that such ordinance will be enacted or, if enacted, such additional bonds will be issued. See "OTHER FINANCING RELATED MATTERS – Recent and Upcoming Financings." The City is seeking state legislation that confirms its understanding that the $27 million contribution to the School District and the contemplated $30 million contribution described in this paragraph, do not increase the City's Maintenance of Effort Obligation (as defined herein) to fund the School District.

The table below sets forth the City Sales Tax collected in Fiscal Years 2003 through 2013, the Adopted Fiscal Year 2014 Budget, the current estimate for Fiscal Year 2014 and the Adopted Fiscal Year 2015 Budget.

**Table 12**
**Summary of City Sales Tax Collections**
**(Amounts in Millions of USD)**

| Fiscal Year | City Sales Tax Collections |
|---|---|
| 2003 | 108.0 |
| 2004 | 108.0 |
| 2005 | 119.9 |
| 2006 | 127.8 |
| 2007 | 132.6 |
| 2008 | 137.3 |
| 2009 | 128.0 |
| 2010 | 207.1 |
| 2011 | 244.6 |
| 2012 | 253.5 |
| 2013 | 257.6 |
| 2014 (Adopted Budget)[1] | 272.6 |
| 2014 (Current Estimate)[2] | 264.9 |
| 2015 (Adopted Budget)[3] | 154.6 |

[1] From the Adopted Fiscal Year 2014 Budget.
[2] From the current estimate for the end of Fiscal Year 2014.
[3] From the Adopted Fiscal Year 2015 Budget.

### Other Taxes

The City also collects real property transfer taxes, parking taxes, amusement tax, valet parking tax, outdoor advertising tax, smokeless tobacco tax and other miscellaneous taxes.

### Improved Collection Initiative

The City is pursuing a multifaceted strategy designed to improve collections of various taxes while decreasing delinquencies. Key compliance strategies include revocation of commercial licenses and sequestration, each of which are described below:

- In May of 2013, the City implemented a program to revoke commercial activity licenses of those establishments that have been delinquent on their taxes. The program focuses on the liquor and use and occupancy taxes. The City estimates the program generated $6 million in cash payments and an additional $6 million in payment plans.

- In October 2013, the City implemented a sequestration effort, which the City has successfully used in previous administrations. Sequestration places delinquent properties under receivership. A third party administrator appointed by the Court of Common Pleas of Philadelphia collects rents which are to be used to manage the property and satisfy outstanding tax delinquencies. The City has engaged two experienced vendors to assist with this program. Since the program was implemented, over 400 property owners have been given notice with initial properties facing receivership as early as December 2013. Although the City is prepared to place properties into receivership, the goal of the program is to motivate property owners to pay delinquent taxes so that sequestration is unnecessary. As of November 2013, the City has received nearly $1 million in cash payments from affected property owners.

- The School Income Tax, which is collected by the City on behalf of the School District and is imposed on certain dividends and other income, poses several challenges including the belief by the City that many citizens are unaware of their responsibility under the tax. The City has partnered with the Commonwealth and received data that will assist in compliance efforts. In addition, the City continues to use available IRS data to identify those residents who have qualifying income.

In addition to compliance efforts, the City is engaged in two active projects to implement technology solutions for its cashiering and payments processing systems and to develop an integrated data warehouse and case management system. These initiatives are designed to improve operational efficiencies and drive compliance efforts by providing tools currently unavailable to the City.

**Other Locally Generated Non-Tax Revenues**

These revenues include license fees and permit sales, traffic fines and parking meter receipts, court related fees, stadium revenues, interest earnings and other miscellaneous charges and revenues of the City.

**Revenue from Other Governments**

Approximately 17.62% of Fiscal Year 2013 General Fund revenues were received from other governmental jurisdictions, including (1) $235.9 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $35.1 million from the Federal government; and (3) $64.7 million from other governments, in which revenues are primarily payments from PGW and parking fines and fees from the Philadelphia Parking Authority. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA-Government Services." In addition, the net collections of the PICA Tax of $313.9 million are included in "Revenue from Other Governments." The decrease in Fiscal Year 2013 Revenue from Other Governments of $64.3 million from the Fiscal Year 2012 actual amount is primarily the result of the elimination of several one-time revenue sources including: $29.0 million of State Pension Aid, $12.4 million from the Parametric Garage for amounts owed to the City, and $10.2 million in amounts due related to the Love Park Garage which was offset by certain other revenues.

The City's Fiscal Year 2012 General Fund received 19.9% of General Fund revenues from other governmental jurisdictions, including: (1) $241.6 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $97.0 million from the Federal government; and (3) $82.1 million from other governments, in which revenues are primarily payments from PGW and parking fines and fees from the Philadelphia Parking Authority. In addition, the net collections of the PICA Tax of $295.2 million are included in "Revenue from Other Governments." The General Fund decrease in Fiscal Year 2012 Revenue from Other Governments is largely due to the transfer of the majority of DHS revenue and obligations to the Grants Revenue Fund.

The City's Fiscal Year 2011 General Fund received 27.6% of General Fund revenues from other governmental jurisdictions, including: (1) $542.2 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $165.4 million from the Federal government; and (3) $63.5 million from other governments, in which revenues are primarily rentals and payments from PGW and parking fines and fees from the Philadelphia Parking Authority. In addition, the net collections of the PICA Tax of $293.8 million are included in "Revenue from Other Governments."

These amounts do not include the substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City.

**Revenues from City-Owned Systems**

In addition to taxes, the City realizes revenues through the operation of various City-owned systems such as the Water and Wastewater Systems and PGW. The City has issued revenue bonds with respect to the Water and Wastewater Systems and PGW to be paid solely from and secured by a pledge of the respective revenues of these systems. The revenues of the Water and Wastewater Systems and PGW are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied and then, in a limited amount and upon satisfaction of certain other conditions.

Effective June 1991, the revenues of the Water Department were required to be segregated from other funds of the City. Under the City's Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the "Water Ordinance"), an annual transfer may be made from the Water Fund to the City's General Fund in an amount not to exceed the lesser of (a) all Net Reserve Earnings, as defined below, and (b) $4,994,000. Net Reserve Earnings

means the amount of interest earnings during the fiscal year on amounts in the Debt Reserve Account and Subordinated Bond Fund, as defined in the Water Ordinance. Commencing in Fiscal Year 1991, the $4,994,000 amount was reduced to $4,138,000 by administrative agreement that remained in effect through Fiscal Year 2003. No such transfer was made in Fiscal Year 1992; however, the transfer was made in each subsequent year through Fiscal Year 2003. For Fiscal Year 2004, the transfer was to have increased to $4,994,000 but no payment was made. For Fiscal Year 2005, the transferred amount was $4,401,000; for each of Fiscal Years 2006 through 2008, the transferred amount was $4,994,000. In Fiscal Years 2009, 2010, 2011, 2012 and 2013, the transferred amounts were $4,185,463, $2,303,986, $1,229,851, $1,086,165 and $560,156, respectively. The Adopted Fiscal Year 2014 Budget and current estimate is $700,000 and the Adopted Budget for Fiscal Year 2015 is $800,000.

The revenues of PGW are segregated from other funds of the City. Payments for debt service on Gas Works Revenue Bonds are made directly by PGW. In previous years, PGW has also made an annual payment of $18,000,000 to the City's General Fund. For Fiscal Year 2005, the City agreed to forgo the $18,000,000 payment, and for Fiscal Years 2006, 2007, 2008, 2009 and 2010, the City budgeted the receipt of the $18,000,000 payment and the grant back of such amount to PGW. The City's Nineteenth Five-Year Plan assumed that the $18,000,000 payment would be made in each of Fiscal Years 2011 through 2015 and that the City would grant back such payment to PGW in each such Fiscal Year. See also "EXPENDITURES OF THE CITY - Annual Payments to PGW." The City's Twentieth Five-Year Plan included the PGW annual payment of $18,000,000 to the City's General Fund but discontinued the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2012, 2013, 2014, 2015 and 2016. The City's Twenty-First Five-Year Plan included the PGW annual payment of $18,000,000 to the City's General Fund and discontinued the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2013, 2014, 2015, 2016 and 2017. The City's Twenty-Second Five-Year Plan includes the PGW annual payment of $18,000,000 to the City's General Fund and discontinues the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2014, 2015, 2016, 2017 and 2018. The City has entered into an Asset Purchase Agreement for the sale of PGW (see page A-4) which would eliminate this payment in future years. The sale of PGW is subject to City Council and PUC approval. The City's proposed Twenty-Third Five-Year Plan includes half of the Fiscal Year 2015 payment ($9,000,000) based on an expected sale date of December 2014 and no payment thereafter. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA-Government Services."

**Philadelphia Parking Authority Revenues**

The Philadelphia Parking Authority ("PPA") was established by City ordinance pursuant to the Pennsylvania Parking Authority Law, P.L. 458, No. 208 (June 5, 1947). Various statutes, ordinances, and contracts authorize PPA to plan, design, acquire, hold, construct, improve, maintain and operate, own or lease land and facilities for parking in the City, including such facilities at Philadelphia International Airport (the "Airport" or "PHL"), and to administer the City's on-street parking program through an Agreement of Cooperation ("Agreement of Cooperation") with the City.

PPA owns and operates five parking garages at the Airport, as well as operating a number of surface parking lots at the Airport. The land on which these garages and surface lots are located is leased from the City, acting through the Department of Commerce, Division of Aviation, pursuant to a lease expiring in 2030 (the "Lease Agreement"). The Lease Agreement provides for payment of rent to the City, which is equal to gross receipts less operating expense, debt service on PPA's bonds issued to finance improvements at the Airport and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its Airport operations, if any. The City received transfers of rental payments in Fiscal Years 2006 through 2012 that totaled $30,186,642, $33,184,918, $33,570,037, $31,239,909, $23,732,623, $28,008,554 and $25,035,368, respectively. The amount for Fiscal Year 2013 was $24,040,892. The Fiscal Year 2014 budgeted amount is $25,000,000, the current estimate is $25,000,000 and the Adopted Budget for Fiscal Year 2015 is $27,000,000.

One component of the operating expenses is PPA's administrative costs. In 1999, at the request of the Federal Aviation Administration ("FAA"), PPA and the City entered into a letter agreement (the "FAA Letter Agreement") which contained a formula for calculating PPA's administrative costs and capped such administrative costs at 28% of PPA's total administrative costs for all of its cost centers. PPA owns and/or operates parking facilities at a number of non-Airport locations in the City. These parking facilities are revenue centers for purposes

of the FAA Letter Agreement. According to PPA's audited financial statements, as filed with the City, PPA has been in compliance with the FAA Letter Agreement since its execution.

Pursuant to the Agreement of Cooperation, on-street parking revenues are administered and collected on behalf of the City by the PPA. Pursuant to state law, the PPA is to transmit these revenues to the City, net of any actual expenses incurred in the administration of the on-street parking system in accord with the PPA's approved budget, provided that, should such net revenues exceed a designated threshold, any excess above that threshold is to be transmitted to the School District. The threshold is set by statute at $25 million, plus a mandatory escalator to take into account increases in revenues. Pursuant to Act 84 of 2012, the threshold is reset at $35 million, including a mandatory escalator to take into account increases in revenues. The City received payments from the PPA for Fiscal Year 2006 through Fiscal Year 2013 of $18,592,486, $24,381,907, $28,662,716, $29,065,413, $33,710,798, $41,638,441, $37,270,853 and $36,523,528. The Fiscal Year 2014 budgeted amount is $38,000,000 and the current estimate is $36,500,000 and the Adopted Budget for Fiscal Year 2015 is $35,000,000. For Fiscal Year 2006 through Fiscal Year 2013, the School District received $0.00, $0.00, $2,885,632, $3,800,588, $7,284,153, $7,788,598, $13,955,844 and $13,263,733, respectively.

## EXPENDITURES OF THE CITY

The major City expenditures are for personal services (including pensions and other employee benefits), purchase of services (including payments to SEPTA), and debt service.

### Personal Services (Personnel)

As of June 30, 2013, the City employed 26,472 full-time employees, 20,897 of which had salaries paid from the General Fund. Additional employment is supported by other funds, including the Grants Fund, Water Fund and the Aviation Fund.

Additional operating funds for employing personnel are contributed by other governments, primarily for categorical grants, as well as for the conduct of the community development program. These activities are not undertaken if funding is not received.

The following table sets forth the number of filled full-time positions of the City as of the dates indicated.

**Table 13**
**Filled, Full Time Positions - All Operating Funds**
**as of June 30 (Actual)**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012[1,2] | 2013[1,2] |
|---|---|---|---|---|---|---|---|---|
| General Fund | | | | | | | | |
| Police | 7,287 | 7,424 | 7,367 | 7,443 | 7,378 | 7,219 | 7,225 | 7.193 |
| Fire | 2,270 | 2,399 | 2,326 | 2,252 | 2,187 | 2,146 | 2,072 | 2,125 |
| Courts | 1,936 | 1,928 | 1,970 | 1,889 | 1,756 | 1,869 | 1,957 | 1,909 |
| Prisons | 2,225 | 2,176 | 2,131 | 2,294 | 2,254 | 2,166 | 2,144 | 2,248 |
| Streets | 1,858 | 1,814 | 1,839 | 1,724 | 1,693 | 1,689 | 1,682 | 1,690 |
| Health | 662 | 664 | 665 | 662 | 662 | 661 | 669 | 673 |
| Human Services | 1,703 | 1,721 | 1,784 | 1,743 | 1,751 | 1,668 | 804 | 349 |
| All Other | 4,878 | 4,941 | 5,029 | 4,905 | 4,616 | 4,602 | 4,622 | 4,710 |
| Total General Fund | 22,819 | 23,067 | 23,111 | 22,912 | 22,297 | 22,020 | 21,175 | 20,897 |
| Other Funds | 4,616 | 4,598 | 4,642 | 4,570 | 4,566 | 4,540 | 5,197 | 5,575 |
| Total - All Funds | 27,435 | 27,665 | 27,753 | 27,482 | 26,863 | 26,560 | 26,372 | 26,472 |

(1) Reflects full-time positions for Fiscal Year 2012 from the June 30, 2012 Quarterly City Manager's Report and for Fiscal Year 2013 from the June 30, 2013 Quarterly City Manager's Report.
(2) Reflects the transfer of the majority of DHS revenue and obligations from the General Fund to the Grants Revenue Fund.

**Overview of City Employees**

The wages and benefits of City employees vary not only by position, but also by whether the employees are represented by a union and, if so, which union. Employee wages and benefits may also be impacted by whether the employee is subject to the Civil Service system or exempt from those rules. Thus, City employees may be broken down into three major categories for purposes of understanding how their wages and benefits are determined: (1) employees who are not subject to the Civil Service system ("exempt employees"); (2) employees who fall under the Civil Service system but are not represented by a union ("non-represented employees") and (3) employees who are subject to the Civil Service system and represented by a union ("union employees"). In addition, there are employees of the First Judicial District who are represented by a union but are not subject to the Civil Service system. By state law, the City is considered to be the economic employer and a joint employer over these court employees, which results in the City negotiating the wages and economic benefits for these employees while the First Judicial District retains control over the non-economic terms of their employment including decisions such as hiring, promotion and all work rules.

As of March 31, 2014, the City's 24,761 unionized employees were represented by the City's four municipal unions: Fraternal Order of Police Lodge No. 5 ("FOP"); International Association of Fire Fighters Local 22 ("IAFF"); American Federation of State, County and Municipal Employees ("AFSCME") District Council 33 ("DC 33"); and AFSCME District Council 47 ("DC 47").

**Table 14**
**Number of Unionized Employees**
**As of March 31, 2013**

| AFSCME District Council 33 | AFSCME District Council 33 Correctional Officers | AFSCME District Council 47, Local 2187 | AFSCME District Council 47 Local 810 Court Employees | AFSCME District Council 47 Local 2186 | Fraternal Order of Police Lodge No. 5 (Police Department) | Fraternal Order of Police Lodge No. 5 (Sheriff's Office and Register of Wills) | International Association of Fire Fighters Local 22 |
|---|---|---|---|---|---|---|---|
| 9,567 | 2,246 | 2,569 | 506 | 953 | 6,464 | 294 | 2,160 |

Union employees, other than uniformed employees of the Police Department and Fire Department, are subject to the requirements of Pennsylvania Act 195 of 1972 ("Act 195"). Under Act 195, the unions and the City are required to bargain in good faith to attempt to reach agreement on new contract terms. Act 195 also requires the parties to satisfy certain state-mandated mediation procedures involving a mediator appointed by the Commonwealth Bureau of Mediation. Once those mediation procedures are satisfied and no collective bargaining agreement has been reached, most employees covered by Act 195 are permitted to strike. For most employees under Act 195 there is no statutory mechanism to resolve an impasse in collective bargaining.

However, under Act 195, certain employees, including employees of the Sheriff's Office and the Register of Wills represented by the FOP, corrections officers represented by DC 33 and employees of the First Judicial District represented by DC 47, are not permitted to strike, but may proceed to interest arbitration under Act 195 when collective bargaining negotiations reach an impasse. In interest arbitration, a tri-parte arbitration panel is convened with each side appointing one partial arbitrator and the partial arbitrators selecting a neutral third arbitrator. The panel then conducts evidentiary hearings and issues an arbitration award that sets the terms and conditions of employment, including changes in wages and benefits, for covered employees. Although the arbitration panel cannot issue an award on matters that are not mandatory subjects of bargaining, such as matters of inherent managerial policy, without the parties' consent, arbitration panels have broad powers to set employment terms. Pennsylvania law provides limited grounds on which an interest arbitration award can be set aside by a court on appeal. However, provisions of an interest arbitration award issued under Act 195 that require legislative action are considered advisory only and the legislative body is permitted to meet, consider and reject those provisions.

Uniformed employees of the Police Department and Fire Department bargain under Pennsylvania Act 111 of 1968 ("Act 111"), which provides for final and binding interest arbitration to resolve collective bargaining

impasses. These employees are similarly not permitted to strike. Interest arbitration under Act 111 operates similarly to interest arbitration under Act 195, but the City's legislative body is not permitted to reject the portions of an interest arbitration award that require legislative action. To the contrary, the City is required to pass any legislation necessary to implement the award unless doing so would violate state or federal law. Thus, the arbitration panel has significant, although not limitless power, to issue an award on mandatory subjects of bargaining. As with interest arbitration under Act 195, the arbitration panel cannot issue an award on a matter that is one of inherent managerial policy. In addition to the grounds available to challenge an Act 195 interest arbitration award on appeal, the PICA Act requires an Act 111 interest arbitration panel to *inter alia* give substantial weight to the City's Five-Year Plan and ability to pay for the cost of the award without negatively impacting services, and gives the City the right to appeal the award to the Court of Common Pleas if it believes the panel has failed to meet these responsibilities. If the arbitration panel fails to do so or *inter alia* if it awards wages or benefits that exceed what is assumed in the Five-Year Plan without substantial evidence in the record demonstrating that the City can afford these increases without adversely impacting service levels, the Court of Common Pleas is required to vacate the arbitration award and remand it to the arbitration panel.

**Overview of Employee Benefits**

The City provides various pension, life insurance, and health benefits for its employees. The benefits offered depend on the employee's union status and bargaining unit, if applicable. General Fund employee benefit expenditures for Fiscal Years 2007 through 2014 are shown in the following table.

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**Table 15**
**General Fund Employee Benefit Expenditures**
**Fiscal Years 2007-2015**
**(Amounts in Millions of USD)**

| | Actual 2007 | Actual 2008 | Actual 2009 | Actual 2010 | Actual 2011 | Actual 2012 | Actual 2013 | Adopted Budget[2] 2014 | Current Estimate[3] 2014 | Adopted Budget[3,4] 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Pension Contribution[1] | 436.8 | 430.8 | 459.0 | 346.7 | 485.2 | 547.8 | 618.9 | 667.5 | 667.5 | 1,278.4 |
| Health | 331.5 | 421.0 | 377.0 | 349.7 | 346.3 | 379.4 | 362.6 | 362.9 | 419.2 | 387.9 |
| Social Security | 64.1 | 69.7 | 68.8 | 65.2 | 64.6 | 67.2 | 64.7 | 65.0 | 65.0 | 68.8 |
| Other | 57.9 | 61.5 | 68.4 | 69.5 | 70.9 | 71.8 | 72.9 | 81.9 | 82.2 | 82.2 |
| Total | 890.3 | 983.0 | 973.2 | 831.4 | 967.0 | 1,066.2 | 1,119.1 | 1,177.3 | 1,233.9 | 1,817.3 |

(1) The Pension Contribution amount includes debt service on the 1999 Pension Obligation Bonds (defined below) and certain debt incurred to refinance existing pension deferral repayment obligations (outstanding together in the aggregate principal amount of $1,294,825,350 on June 30, 2013). See also "*Pension Obligation Bonds*" and "*Funded Status of the Municipal Pension Fund*" under "Municipal Pension Fund (Related to All Funds)" below.
(2) From the estimates for the Adopted Fiscal Year 2014 Budget. Does not reflect full impact of August 2013 IAFF Order and IAFF Withdrawal. See "Overview of Current Labor Situation – IAFF."
(3) From the Adopted Fiscal Year 2015 Budget.
(4) The Pension Contribution amount in Fiscal Year 2015 includes an additional one-time contribution of $700 million from the proceeds from the proposed sale of PGW.

Each of the City's four municipal unions sponsors its own health plan that provides medical, prescription, dental and optical benefits to participating employees and eligible retirees through trusts on which the City has varying degrees of minority representation. Exempt and non-represented employees, along with represented employees of the Register of Wills and employees represented by DC 33 who have chosen not to become members of the union, receive health benefits through a plan sponsored and administered by the City (the "City-Administered Plan"). Each of the plans provides different benefits determined by the plan sponsor. In addition, employees who satisfy the eligibility criteria, receive five years of health benefits after their retirement. See "Other Post-Employment Benefits." These benefits are determined and administered by the plan in which the employee participated at the time of his or her retirement.

Other employee benefits, including life insurance and paid leave, are similarly determined by the respective collective bargaining agreements and City policies and Civil Service Regulations. Employees also participate in the Municipal Retirement System. See "Municipal Pension Fund." The City sponsors a number of pension plans within the Retirement System. Membership in the plans is determined by the employee's hire date, union membership and job classification. Uniformed employees of the Police Department and Fire Department have their own separate pension plans, which have lower retirement ages, higher multipliers and higher employee contribution rates. All other City employees participate in what is referred to as the "municipal plan." Depending on hire date and union status, employees participate in one of three basic pension plan tiers in the municipal plan, which have varying levels of benefits, and which are colloquially referred to based on the year in which they were first implemented: "Plan 67" is the most generous of the three plans, offering a traditional defined benefit for life; "Plan 87" maintains Plan 67's defined benefit structure but provides less generous benefits to employees and lower employee contributions; "Plan 10," which was created by the current Administration, is a so-called hybrid plan, combining a lower level of defined benefits with an optional defined contribution component in which employees can contribute a portion of their salary, pre-tax, to a 403(b) plan and receive a 50% match on those contributions up to a maximum City contribution of 1.5% of pay annually. Plan 10 has only been made mandatory for newly-hired employees of the Register of Wills. New employees who belong to the FOP or the IAFF can opt to participate in Plan 87 by paying an extra one percent of salary or may enter into Plan 10. To date no members of the IAFF or FOP have chosen to enter Plan 10. Under the contract settlement reached with DC 47, employees hired after March 5, 2014 will similarly have the choice, once passed by City Council, between entering Plan 87 and paying an extra one percent of pay (exclusive of the additional one percent increase by January 1, 2016 described below) or entering Plan 10. The actuary for the pension plan has estimated the savings to the City for new hires participating in Plan 10 at 2.5% of payroll compared to the cost of these employees participating in Plan 87 instead. See Table A-1 of the 2013 Actuarial Report (hereinafter defined) for information on the number of active members in the various City pension plans as of July 1, 2013. As of such date there were seven active members in Plan 10.

**Overview of Current Labor Situation**

The Fraternal Order of Police received a five-year interest arbitration award for uniformed police department employees on December 18, 2009 covering the period Fiscal Year 2010 through Fiscal Year 2014. Interest arbitration awards covering employees of the Sheriff's Office and Register of Wills, corrections officers and youth detention counselors represented by DC 33 and court employees represented by DC 47 through Fiscal Year 2014 were issued in 2011 and 2012. An interest arbitration award covering employees of the IAFF for the period Fiscal Year 2010 through Fiscal Year 2013 was first issued in 2010. After an appeal by the City that resulted in the award being vacated and additional hearings, a new award was issued in 2012. The City appealed again, but that appeal was withdrawn in September 2013 and the award has now been implemented.

An agreement was reached with DC 47, which was ratified on March 5, 2014, for a contract covering the period Fiscal Year 2010 through Fiscal Year 2017. The agreement with DC 33 expired on June 30, 2009 and no new agreement has been reached.

The information below summarizes the interest arbitration awards that have been issued and contract settlements reached and provides an update on the status of negotiations, as well as changes that have been made for exempt and non-represented employees.

Uniformed Police Department Employees Represented by FOP

On December 18, 2009, an arbitration panel awarded a five-year contract to the FOP effective July 1, 2009. On March 2, 2010, the arbitration panel issued a supplemental award solely on the issue of pension benefits. On December 20, 2012, the interest arbitration panel issued an award setting the wage terms for Fiscal Year 2013 and Fiscal Year 2014. These awards have the following key provisions:

- No wage increase for Fiscal Year 2010.
- Three percent pay increases for each of Fiscal Year 2011 and Fiscal Year 2012, along with a re-opener for Fiscal Year 2013 and Fiscal Year 2014 which yielded an additional 3% raise in both years.
- An increase in the stress pay that police officers receive as a result of working rotating shifts by 1% in Fiscal Year 2011 and 1% in Fiscal Year 2014.
- Several changes were made in the area of health benefits to reduce City costs. At the start of the Nutter Administration, the City was contributing $1,303 per eligible employee and retiree per month ("PEPM") to the FOP health plan. In the one-year 2008-2009 interest arbitration award, that amount was reduced to $1,165 PEPM. The 2009-2014 interest arbitration award continued that downward trend, reducing the City's contribution to the FOP health plan to $965 PEPM effective January 1, 2010. Effective July 1, 2010, the award ordered the FOP's health plan moved to self-insurance. Under self-insurance, the health fund pays for the actual cost of services provided to members, instead of paying a premium to an insurance carrier based on expected claims. The FOP's change is similar to the change the City made in Fiscal Year 2010 for the City-Administered Plan. In addition, the award also ordered increases in the co-pays employees pay for doctor's visits and prescription drugs. The health plan's actuary has estimated that the change in benefits reduced costs by $1.5 million in the first six months alone. Changes in the health care provisions in the 2008 and 2009 interest arbitration awards have resulted in savings to the City in excess of $50 million to date.
- Pension changes for new hires - FOP members now choose between either increasing their pension contribution from 5% to 6% of pay or enrolling in Plan 10.
- The City gained the right to furlough (a day off without pay) employees up to 30 days each fiscal year.

The City and the FOP continue to have disputes regarding implementation of certain portions of the 2009 interest arbitration award regarding health insurance. Originally, the parties disputed how the expected costs were calculated by the parties' respective experts for Fiscal Year 2011, the inclusion of certain depreciation expenses in administrative costs and the creation of an escrow account. A hearing was held before the interest arbitration panel and it issued a decision in August 2013 accepting the City's position on the method of calculating the expected

costs, and accepting the FOP's position on the depreciation expenses and the creation of an escrow account. The disputed amounts have now been paid, with the exception of the escrow account because the FOP has not forwarded a proposed escrow agreement to the City, as required by the Panel's award. The City has escrowed the fund to cover the ordered escrow account. Currently, the parties are in dispute over the reconciliation between the expected costs for Fiscal Year 2012, as calculated by the parties' respective consultants, and the actual Fiscal Year 2012 results. Specifically, the FOP contends that more than $3 million in expenses that it alleges were incurred by dependents up to age 26 who gained coverage under the Affordable Care Act should be excluded from the reconciliation for purposes of increasing the reconciliation payment owed. This dispute, which has a total impact of approximately $1.5 million, has not been submitted to the interest arbitration panel for resolution at this time, but is still in discussions between the parties. The prior disputes have delayed the exchange of the Fiscal Year 2013 and Fiscal Year 2014 expected costs.

The current interest arbitration award has an expiration date of June 30, 2014. In accordance with Act 111, the parties exchanged proposals for a successor agreement on December 31, 2013 and the FOP made a demand for interest arbitration. A neutral arbitrator has been appointed and hearings have begun and are scheduled through July 14, 2014 with an award expected by the end of July 2014.

FOP-Represented Deputy Sheriff and Register of Wills

A five-year interest arbitration award covering the unionized employees of the Sheriff's Office and Register of Wills was issued on June 21, 2011 for the period July 1, 2009 through June 30, 2014. Key provisions of the award include:

- A 2.5% increase for Sheriff's Office employees in Fiscal Year 2011 and Fiscal Year 2012 and a re-opener for Fiscal Year 2013 and Fiscal Year 2014, which yielded an award of 3% raise in both years. The re-opener award also directed a change in the longevity schedule from a fixed dollar to a percentage, intended to not result in additional costs to the City.
- Wage increases for Register of Wills employees, if any, will be based on increases negotiated between the City and DC 33.
- Step and longevity increments, which had been frozen by the City in July 2009, were restored for employees of the Sheriff's Office retroactive to the start of the freeze. Increments for Register of Wills employees were restored prospectively as of the date the award was issued.
- Employees of the Sheriff's Office participate in the FOP's health plan. The award continued that arrangement, along with the same funding terms and benefit plan changes as the police interest arbitration award. Register of Wills employees continue to participate in the City-Administered Plan.
- Pension changes for new hires. New employees of the Sheriff's Office choose between going into the existing municipal pension Plan 87 and increasing their contribution to 50% of normal cost from 30% of normal cost, or going into Plan 10. Register of Wills employees hired after the date of the award must enter Plan 10. The award was the first that required City employees to enter the hybrid plan.

Because the award has an expiration date of June 30, 2014, the union has now requested bargaining for a contract to begin July 1, 2014. The bargaining process is ongoing.

IAFF

A four-year interest arbitration award with the IAFF was issued on October 15, 2010. Although the award took a crucial step toward reform by implementing a Plan 10 option like the one in the 2009 FOP award, it would have imposed more than $200 million in new costs over the Five-Year Plan without giving the City the required tools to manage these costs. As a result, the City appealed the award, with the exceptions of the revisions to the pension plan and a change related to vacations, on the basis that the award violated the PICA Act because it failed to give substantial weight to the City's approved Five-Year Plan and ability to pay, and, as a result, granted increases in pay and benefits in excess of what the City could afford. On November 16, 2011, the Philadelphia Court of Common Pleas vacated the entire award, with the exception of the pension and vacation provisions, and remanded it to the arbitration panel to issue an award that complies with the PICA Act.

On July 2, 2012, the arbitration panel issued an award following the remand. This award followed the same pattern as the vacated award on economic terms with the exception of health insurance. Key provisions of the award include:

- No wage increase for Fiscal Year 2010.
- Three percent pay increases for each of Fiscal Year 2011, Fiscal Year 2012 and Fiscal Year 2013.
- Pension changes for new hires - IAFF members now choose between either increasing their pension contribution from 5% to 6% of pay or enrolling in Plan 10.

Under the 2012 award, the City's required contributions to the IAFF-controlled health fund were substantially increased from $1,270 PEPM at the start of the award to $1,679 PEPM as of July 1, 2012, including more than $20 million in retroactive payments. For the period October 1, 2012 through June 30, 2013, the City's required contribution was set at $1,619.64 PEPM under the award, which is significantly higher than the monthly per employee contribution for DC 33 and DC 47 ($975.76) and the FOP (currently, approximately $1,300 under self-insurance). The award also gave the City the option to have the health fund move to self-insurance on terms based on the FOP award effective October 1, 2012 rather than pay the fixed $1,619.64 PEPM. However, to do so, the City would still have had to pay the retroactive contributions in excess of $20 million and bear the costs of the benefits and administration of the health fund, regardless of their magnitude with no employee contribution after the health fund paid the first $5 million in claims. Because this award would have added over $200 million in costs over the Five-Year Plan, including more than $80 million in retroactive payments in Fiscal Year 2013, it was appealed by the City. On November 19, 2012, the Common Pleas Court denied the City's appeal. The City appealed the denial to Commonwealth Court.

On September 6, 2013, the City withdrew its appeal of the 2012 award (the "IAFF Withdrawal"). Although the City believes it would have prevailed in the appeal, it determined that its improved financial condition made it appropriate to implement the terms of the award, rendering the appeal unnecessary. The City has now implemented the terms of the award and revised the Twenty-Second Five Year Plan to reflect the additional costs. See "SUMMARY FINANCIAL INFORMATION-Five-Year Plans of the City."

During the pendency of the appeal, the City had not implemented its terms, except for the pension provision that was implemented following issuance of the 2010 award. The IAFF filed an unfair labor practice charge with the Pennsylvania Labor Relations Board and a Motion for Contempt with the Court of Common Pleas of Philadelphia County challenging the City's failure to implement the 2012 award. The Court of Common Pleas issued an order on June 26, 2013 denying the IAFF's Motion for Contempt and finding that the City is entitled to an automatic stay of its decision to deny the petition to vacate while the City's appeal of that order is pending. The IAFF has now withdrawn its appeal of that order to Commonwealth Court with prejudice, along with its unfair labor practice charge.

Because the appealed contract would have expired on June 30, 2013, negotiations are underway for a new contract to begin retroactive to July 1, 2013. The IAFF declared an impasse and requested interest arbitration. The arbitration panel was selected and hearings were held from August 2013 through January 2014. An award is not expected before summer 2014.

DC 33

After having spent nearly four years in negotiations, the City has been unable to reach an agreement with DC 33. On January 16, 2013, the City made a final offer to DC 33 for a contract to run July 1, 2009 through June 30, 2014. The City's offer includes wage increases of 2.5% following ratification and an additional 2% in January 2014 and restoration of step and longevity increments prospectively following ratification, along with $25 million in additional payments to the union managed health fund. Under the City's proposal, the City's PEPM contribution to the union's health fund will remain at $975.76 for the term of the contract with the health fund using the lump sum payments to offset any cost increases it has experienced. The City also proposes two pension changes: (1) to require all new employees to enter Plan 10; and (2) increased pension contributions from current employees as was ordered for corrections officers represented by DC 33 (discussed below). Additionally, the City proposes changes in overtime rules based on the changes made in Fiscal Year 2013 for non-represented employees and those represented

by Local 2186 of DC 47 (discussed below) and the right to furlough employees when economic circumstances warrant, similar to the FOP award. The City estimates the Five-Year Plan cost of its final offer at more than $50 million. When DC 33 rejected this offer, the Mayor gave DC 33 two weeks to reconsider its refusal, but subsequent discussions were unproductive.

On February 1, 2013, the City filed an action in the Court of Common Pleas of Philadelphia County, asking the court for a declaration that the City has the right to implement its final offer for the currently-expired contract. On February 5, 2013, the City asked the Pennsylvania Supreme Court to assume immediate jurisdiction over the matter to speed a final resolution. Groups representing all 3,000 elected local governments in Pennsylvania filed a brief in the Pennsylvania Supreme Court on February 19, 2013 in support of the City's request. On June 7, 2013, the Pennsylvania Supreme Court declined to expedite review over a strong dissent by Justice Castille. The case continues in the Court of Common Pleas with that court having denied the parties' cross motions for summary judgment by orders dated February 20, 2014. The case is now listed for the July 2014 trial pool. During the period of litigation, the City is maintaining the status quo on the issues that separate the parties.

DC 33 Corrections' Officers and Youth Detention Counselors

On March 16, 2012, an interest arbitration panel issued an award for the period July 1, 2009 through June 30, 2014 covering approximately 2,100 prison guards and related employees of the City who are part of DC 33. Key components of the award include:

- A one-time $1,100 lump sum bonus, equivalent to that received by the larger unit of DC 33 in 2008, and wage increases of 2.5% effective July 1, 2012 and July 1, 2013. If the City agrees to any wage increases in the DC 33 negotiations described in the preceding section for July 1, 2009 through June 30, 2012, the prison guards and related City employees would also receive these increases.
- All new hires are required to enter Plan 10. Additionally, current employees are required to make increased contributions for their pension plans effective July 1, 2013. Employees covered under Plan 87 will see an increase from 30% of normal cost to 50% of normal cost, which will increase the employee contribution by approximately 1.3% of salary. Employees in Plan 67 will also pay 50% of normal cost, but will no longer receive an offset while contributing toward FICA, which will increase the employee contribution by 2.25% of salary for most employees.
- Paid leave hours other than vacation no longer count as hours worked when determining when overtime is due.

The union filed a petition to vacate portions of the award, which was denied by the Court of Common Pleas of Philadelphia County on April 5, 2013. The union has appealed that decision to Commonwealth Court. Briefs have been submitted by the parties and oral argument was held on February 10, 2014. The pension changes awarded have not been implemented pending approval by City Council.

Because the award has an expiration date of June 30, 2014, the union has now requested bargaining for a contract to begin July 1, 2014. No bargaining sessions have been scheduled.

DC 47

DC 47 represents three distinct groups of employees that have different bargaining rights under Act 195. Local 2187 is the rank-and-file professional employees that DC 47 represents. They have the right to collectively bargain under Act 195 and to strike once the statutory mediation procedures are exhausted, as described above. Local 2186 is a unit comprised of first-level supervisors who do not have the right to collectively bargain under Act 195, but only to meet and discuss. Subject to this obligation, the City has the right to impose changes in terms and conditions of employment, including wage and benefit changes, on Local 2186 employees. Local 810 is a unit of employees of the First Judicial District who have the right to proceed to interest arbitration under Act 195.

All three of the groups participate in the union-controlled health fund. The City's current contribution to the health fund of $1,100 per member per month was increased under the recent agreement with DC 47, as described below. The status of contracts with each group of these employees is discussed below.

DC 47 Local 2187

The City reached an agreement with DC 47 Local 2187 ("Local 2187") on February 25, 2014 for a contract term from July 1, 2009 through June 30, 2017. The new contract provides no retroactive pay increases, but members will receive a ratification bonus of $2,000 per person as well as wage increases of 3.5% 30 days after ratification and across the board wage increases of 2.5% effective July 1, 2015 and 3% effective July 1, 2016. Step and longevity increments, which were frozen in July 2009 pending agreement on a new contract, are also to be restored under the agreement prospectively, with employees being placed at the step and longevity increment that they would be at had the freeze never occurred, but no retroactive increases will be paid. In terms of pensions, current employees will see their employee contributions rise by 1% of pay by January 1, 2016. Employees hired after the ratification of the contract can choose Plan 10 – the City's hybrid plan that has both a traditional defined benefit pension and a 401(k)-style element – or they can remain in the current pension plan and pay 1% more than current employees are then paying toward their pensions (including the increases outlined above). The City sought City Council approval prior to implementing these pension changes and the implementing ordinance was passed by City Council on May 8, 2014. Under the agreement, effective January 1, 2015, sick time will no longer be counted as hours worked when determining when overtime is due on a weekly basis. On health care, through December 31, 2014, the City's contribution to the health fund will be $1,100 per member per month, up from the previous $975 per member per month, and the City made a one-time lump sum payment to the health fund of $5 million. Effective January 1, 2015, however, the health fund will move to a self-insured arrangement, similar to the contract with the FOP, and the City will pay the cost of benefits and administration. DC 47 will manage the plan and use an aggressive wellness program with monetary incentives to help employees and their families stay healthier and control costs. Employees will contribute 9% of the health plan's costs. In lieu of creating a separate mechanism for furloughs or temporary layoffs, DC 47 agreed to support the change to civil service regulations to allow the City to streamline the layoff process through a change in calculation of the layoff score and to change the pension ordinance to provide that a layoff of fewer than 15 consecutive days will not be considered a separation for purposes of the deferred retirement option plan ("DROP") to prevent employees who are in the DROP from experiencing a permanent separation as a result of a temporary layoff. The agreement was ratified by Local 2187 on March 5, 2014.

On February 25, 2014, a separate memorandum of agreement was reached with DC 47 Local 2186 ("Local 2186"). The economic terms of that agreement are the same as the Local 2187 agreement, with the exception of the step and longevity provisions, which are not applicable as the freeze on step and longevity increments for Local 2186 employees was lifted by the City in 2012. The agreement was ratified by Local 2186 on March 5, 2014.

The additional cost to the City of such contracts is estimated at $0.5 million in Fiscal Year 2014, $9.2 million in Fiscal Year 2015, $19.1 million in Fiscal Year 2016 and $26.4 million in Fiscal Year 2017. The Mayor's Proposed Fiscal Year 2015 Budget and proposed Twenty-Third Five-Year Plan reflect such additional cost. While the City believes it can manage these increased costs, such costs are expected to cause a significant reduction in the City's General Fund balance in Fiscal Years 2015 through 2017 under the Twenty-Third Five-Year Plan as compared to the Twenty-Second Five Year Plan. See "SUMMARY FINANCIAL INFORMATION – Five-Year Plans of the City."

A side letter to the contracts, which was signed on March 5, 2014, reflects the parties' intent that DC 47-represented employees not suffer economic disadvantage as a result of having negotiated a contract before DC 33. Therefore, if the City negotiates a total compensation package with DC 33 that is greater than that provided in the DC 47 agreement, DC 47-represented employees will be entitled to additional compensation to reflect that difference. Similarly, if the City negotiates pension or overtime terms with DC 33 which are more favorable for employees, those terms will be applied to DC 47-represented employees. Any additional costs to the City as a result of the provisions of such side letter are not included in the estimates in the preceding paragraph or in the Mayor's Proposed Fiscal Year 2015 Budget and proposed Twenty-Third Five-Year Plan.

DC 47 Local 810

On July 11, 2012, an interest arbitration award was issued governing economic terms of employment for covered employees for the period from July 1, 2009 through June 30, 2014. The award ordered general wage increases of 2.5% on July 1, 2012 and July 1, 2013. Additionally, employees in the classification of Probation Officer 2 were awarded a one-range increase within the First Judicial District pay schedule. The First Judicial

District has not implemented the classification adjustment, as ordering a promotion infringes on the exclusive authority of the courts. The union has filed an unfair labor practice charge challenging the refusal to implement that provision, on which two days of hearings were held. The union has submitted its post-hearing brief. The First Judicial District has now decided to implement the change to the pay schedule for these employees and the City expects the unfair labor practice charge to be rendered moot. Under the award, new hires are required to enter Plan 10. Implementation of the pension provision requires City Council approval.

Although the current award expires on June 30, 2014, no demand for negotiations for a successor agreement to begin July 1, 2014 was made within the statutory deadline. A request to bargain was made on March 6, 2014. The bargaining process is ongoing.

DC 47 Local 2186 and Exempt and Non-Represented Employees

In September 2012, Mayor Nutter announced changes in wages and benefits for supervisors in DC 47 Local 2186 (for whom the City may impose terms of employment), effective October 1, 2012, along with civil service non-represented and exempt employees. These changes included: (1) a 2.5% pay increase; (2) prospectively restored step and longevity increments (but no back pay); (3) changes restricting overtime including the elimination of double time. In addition, the City amended the Civil Service Regulations to allow it to furlough employees when economic circumstances warrant. As part of this package of changes, the Mayor asked City Council to pass legislation placing new employees in Plan 10 and requiring other employees to contribute, on average, 1.3% to 2.25% more to their pension, as was awarded in interest arbitration with the City's corrections officers (discussed above). Implementation of the pension changes is awaiting City Council approval. These changes affect approximately 5,500 City employees, including those in independently elected offices, who had not had a pay increase since 2007.

The union filed an unfair labor practice charge challenging the implementation of these changes on employees in Local 2186. The parties agreed to submit the dispute through stipulations of facts and the submission of written briefs. A decision is expected in 2014.

On March 25, 2014, the City and Local 2186 agreed to the terms of a new memorandum of agreement covering the period from July 1, 2009 through June 30, 2017. The agreement provides the same wage increase, bonus, pension, overtime, layoff and health care provisions as the Local 2187 agreement. It also requires the City to rescind any regulations implementing the October 2012 changes.

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**Summary of Wage Changes Since Fiscal Year 2006**

The following table presents employee wage increases for the Fiscal Years 2006 through 2017.

**Table 16**
**Employee Wage Increases**
**Fiscal Years 2006-2017**

| Fiscal Year | AFSCME District Council 33 | AFSCME District Council 47 | Fraternal Order of Police Lodge No. 5 (Police) | IAFF Local 22 | AFSCME District Council 33 Correctional Officers | AFSCME District 47 Local 810 Court Employees | AFSCME District Council 47 Local 2186 | Fraternal Order of Police Lodge No. 5 (Sheriff's Office and Register of Wills |
|---|---|---|---|---|---|---|---|---|
| 2006 | 2.0% | 2.0% | 3.0% | 3.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| 2007 | 3.0%(1) | 3.0%(1) | 3.0% | 3.0% | 3.0%(1) | 3.0%(1) | 3.0%(1) | 3.0%(1) |
| 2008 | 4.0%(2) | 4.0%(2) | 4.0% | 4.0% | 4.0%(2) | 4.0%(2) | 4.0%(2) | 4.0%(2) |
| 2009 | No increase(3) | No increase(3) | 4.0%(4) | 4.0%(4) | No increase | No increase(3) | No increase(3) | 3.0%(11) |
| 2010 | (5) | (6) | 0.0%(7) | 0.0%(8) | (9) | (10) | (12) | 0.0%(13) |
| 2011 | (5) | (6) | 3.0%(7) | 3.0%(8) | (9) | (10) | (12) | 2.5%(13) |
| 2012 | (5) | (6) | 3.0%(7) | 3.0%(8) | (3) (9) | (10) | (12) | 2.5%(13) |
| 2013 | (5) | (6) | 3.0%(7) | 3.0%(8) | 2.5%(9) | 2.5%(10) | 2.5%(12) | 3.0%(13) |
| 2014 | (5) | 3.5%(6) | 3.0%(7) | (8) | 2.5%(9) | 2.5%(10) | 3.5% | 3.0%(13) |
| 2015 | (5) | No increase(6) | (7) | (8) | (9) | (10) | No increase(12) | (13) |
| 2016 | (5) | 2.5%(6) | (7) | (8) | (9) | (10) | 2.5%(12) | (13) |
| 2017 | (5) | 3.0%(6) | (7) | (8) | (9) | (10) | 3.0%(12) | (13) |

(1) Third year of a four year contract: 3% effective July 1, 2006.
(2) Fourth year of a four year contract: 4% effective July 1, 2007.
(3) Cash bonus of $1,100 paid 15 days after ratification.
(4) One year contract: 2% effective July 1, 2008 and 2% effective January 1, 2009.
(5) Contract expired on June 30, 2009, and negotiations are currently underway.
(6) Eight year contract effective July 1, 2009 – June 30, 2017: Employees will receive a ratification bonus of $2000. Wage increase of 3.5% will be effective 30 days after ratification of the labor award agreement reached on February 25, 2014, followed by a 2.5% increase on July 1, 2015 and 3% increase on July 1, 2016.
(7) Five year contract: 0% effective July 1, 2009, 3% effective July 1, 2010, 3% effective July 1, 2011, 3% effective July 1, 2012, 3% effective July 1 2013. Negotiations are underway for a contract beginning July 1, 2014.
(8) Four year contract: 0% effective July 1, 2009, 3% effective July 1, 2010, 3% effective July 1, 2011, 3% effective July 1, 2012. Negotiations for a contract beginning July 1, 2013 are underway.
(9) Five year contract: For Fiscal Years 2010, 2011 and 2012, covered employees will receive the same wage increases, if any, negotiated by DC33 for that time period; 2.5% effective July 1, 2012; 2.5% effective July 1, 2013. Negotiations are underway for a contract beginning July 1, 2014.
(10) Five year contract: For Fiscal Years 2010, 2011 and 2012, covered employees will receive the same wage increases, if any, negotiated by DC47 for that time period; 2.5% effective July 1, 2012; 2.5% effective July 1, 2013.
(11) One year contract: 3% effective July 1, 2008.
(12) Covered employees will receive the same wage increases as those negotiated by DC 47 under the new contract for Fiscal Year 2009 – Fiscal Year 2017.
(13) Five year contract: 0% effective July 1, 2009, 2.5% effective July 1, 2010, 2.5% effective July 1, 2011, 3.0% effective July 1, 2012 and 3.0% effective July 1, 2013. Negotiations are underway for a contract beginning July 1, 2014.

## Municipal Pension Fund (Related to All Funds)

### *General*

The Board of Pensions and Retirement (the "Pension Board") is charged under the Philadelphia Home Rule Charter with the creation and maintenance of an actuarially sound retirement system providing benefits for all City employees. Court decisions have interpreted the requirement to maintain an actuarially sound retirement system to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:

A. Accrued actuarially determined normal costs; and

B. Amortization of the unfunded actuarial accrued liability ("UAAL").

The Pension Board, pursuant to the Home Rule Charter, is composed of the Director of Finance, who serves as chairperson, the Managing Director, the City Solicitor, the Personnel Director, the City Controller and four members who are elected by the Civil Service employees of the City, and one non-voting member of the Board, appointed by the President of Council. The elected members serve a four-year term of office.

The Pension Board formally approves all benefit applications, but its major role is that of "trustee," to ensure that the retirement system remains actuarially and financially sound for the benefit of current and future benefit recipients. The Pension Board, with the assistance of its staff and professional consultants, develops the policies and strategies which enable the Pension Board to successfully execute its fiduciary obligations.

The City's funding of employer contributions to the Municipal Pension Fund requires the Mayor's annual budget submission and the appropriation of funds for such purpose by the City Council. See "CITY FINANCES AND FINANCIAL PROCEDURES – Budget Procedure" above. In every year since 1984, the City has appropriated contributions to the Municipal Pension Fund in an amount at least equal to the required minimum municipal obligation ("MMO") specified under state law. See "*Funded Status of the Municipal Pension Fund*" below. However, the City, pursuant to state legislation, deferred a portion of its previously calculated MMO in the amount of $150 million in Fiscal Year 2010 and $80 million in Fiscal Year 2011 which was paid in the period ending in Fiscal Year 2013. See "*Annual Required Contributions*" below for further information regarding the City's annual contributions to the Municipal Pension Fund. The City's annual funding of the Municipal Pension Fund at a level at least equal to the applicable MMO makes the City eligible to receive certain annual pension funding from the Commonwealth of Pennsylvania which is deposited to the City's General Fund and transferred to the Municipal Pension Fund. For information regarding the annual amounts of Commonwealth contributions see Table 23 below.

***Overview Discussion of Funding of Municipal Pension Fund***

Since 2004, the City has been making contributions to the Municipal Pension Fund based primarily upon the MMO rather than the higher annual required contribution (the "ARC") under the pension fund's funding policy and the City's proposed Twenty-Third Five-Year Plan projects continued funding based upon the MMO. The proposed Twenty-Third Five-Year Plan further provides for contributions above the MMO of: (1) a lump sum deposit of net proceeds of the proposed Sale of PGW; (2) an incremental annual deposit equal to the MMO if the Sale of PGW did not occur less the MMO as a result of the deposit made possible by such Sale, less $18 million (representing the annual payment by PGW to the City's General Fund); and (3) the City's projected share of the State-authorized 1% sales tax increase (which has not yet been enacted by the City). The contributions identified in clauses (1) and (2) of the prior sentence will only occur if the Sale of PGW is closed. The contribution described in clause (3) will only occur if the City enacts the new 1% sales tax. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services" and "REVENUE OF THE CITY – Sales and Use Tax." See "Comparison of State Law (MMO) and Pension Board Funding Policy Funding Methods" for a comparison of the methodologies for the actuarial calculations of the ARC and the MMO. The MMO, the ARC, the actuarial accrued liability, the UAAL and the net pension obligation with respect to the Municipal Pension Fund have each generally been increasing over the prior decade while the funded ratios for the Municipal Pension Fund have generally been decreasing. See Tables 21 through 24 below. The Municipal Pension Fund is expected to generally show a continuation of these trends over the City's next five fiscal years. See Table 25 below. The 2013 Actuarial Report sets forth certain projections of the funded ratio of the Municipal Pension Fund to 2033 which indicate that funding the Municipal Pension Fund at the MMO level, based on current methods and assumptions, will result in a slow improvement of funding of the Municipal Pension Fund. See *"Projections of Funded Status"* below for a further discussion of such projections and related assumptions. The fresh start amortization on a level dollar basis ensures the principal is paid each year and is expected to cause the City's pension contributions to be more level compared to what they would have been under the City's previous amortization period.

The UAAL for the Municipal Pension Fund increased from $5.083 billion as of July 1, 2012 to $5.327 billion as of July 1, 2013. Experience loss represents a $167.5 million increase in the UAAL. There was also an increase in the UAAL of $143.1 million due to assumption changes. The funded ratio (on an actuarial basis) for the

Municipal Pension Fund decreased from 48.1% as of July 1, 2012 to 47.4% as of July 1, 2013. The 2013 Actuarial Report states that while this ratio may appear to reflect lack of progress in funding, the Municipal Pension Fund's risk profile is being improved by including funding for the Pension Adjustment Fund and lowering the Municipal Pension Fund's interest rate assumption from 7.95% to 7.85%. See "*Pension Adjustment Fund*" and "*Actuarial Methods and Assumptions*" below.

The City considers capital market fluctuations with respect to the assets of the Municipal Pension Fund to be a significant risk to the funded status of the Municipal Pension Fund. The City has reduced the assumed rate of return over the last several years. No assurances can be given that the Municipal Pension Fund will achieve its assumed rate of return for any particular time period. See "*Investments"* and *"Cash Flows of the Municipal Pension Fund"* below.

The City's ability to reduce the UAAL for the Municipal Pension Fund depends, among other factors, upon collective bargaining negotiations and accompanying City Council implementing actions. No assurances can be given that such negotiations and actions will be successfully implemented in their entirety, or, if implemented, will produce expected improvements in funded status for the Municipal Pension Fund.

With respect to Municipal Pension Fund's impact on the City's overall budget, the City's proposed Twenty-Third Five-Year Plan includes annual funding at the MMO level without reductions in services or new General Fund revenues but reflects the alterations in pension fund benefits that have been included in arbitration awards and are being sought in collective bargaining negotiations. Historically, however, pension cost increases (which have gone from approximately 6% of the City's General Fund budget in Fiscal Year 2004 to 12% in Fiscal Year 2011) necessitated, at least in part, service cuts and tax increases imposed by the City in recent years. Based on the current projected Fiscal Year 2014 General Fund expenditures of $3,995.1 million, the General Fund's share of the Fiscal Year 2014 MMO is 11%. When adding the annual debt service on the City's Pension Related Bonds to the General Fund MMO costs, total pension related expense for the General Fund is approximately 16%.

***Certain Additional Municipal Pension Fund Information***

In addition to the discussion of the City's Municipal Pension Fund and the City's municipal pension programs known as Plan 67, Plan 87 and Plan 10 (collectively, the "Municipal Pension Plan") set forth under "Municipal Pension Fund (Related to All Funds)" herein, investors are referred to certain other portions of this Official Statement for other information relating to the City's Municipal Pension Fund and Municipal Pension Plan as described below.

See "SUMMARY FINANCIAL INFORMATION−Five-Year Plans of the City" for a discussion of changes in the annual earnings assumptions for the Municipal Pension Fund in relation to the City's five-year financial plans. See "Overview of Current Labor Situation" above for a discussion of pension-related changes set forth in certain collective bargaining agreement contracts or arbitration awards.

A schedule of funding progress as of July 1, 2013, a comparative schedule of operations of the City's Municipal Pension Fund for Fiscal Years 2004 through 2013 and a description of the derivatives and other financial contracts utilized by the Pension Board, among other items, are contained in the CAFR for the City's Fiscal Year ended June 30, 2013, included as APPENDIX C to this Official Statement.

The City's actuarial report dated April 3, 2014, for the period ending July 1, 2013 (the "2013 Actuarial Report"), which sets forth further information regarding the City's pension obligations, including projections of assets and liabilities in the Municipal Pension Fund and future City contributions, is available on the City's Investor Website. See "DISCUSSION OF FINANCIAL OPERATIONS-Current City Practices." The 2013 Actuarial Report is <u>not</u> incorporated into this Official Statement by reference. The 2013 Actuarial Report was prepared by Cheiron, McLean, Virginia (the "Actuary"). The City has not prepared the projections or actuarial assessments set forth in the 2013 Actuarial Report but has reviewed the information set forth in the 2013 Actuarial Report and has no reason to believe that any such information as of its relevant date is inaccurate. **Projections and actuarial assessments are "forward looking" statements and based upon assumptions which may not be fully realized in the future and are subject to change including changes based upon the future experience of the City's Municipal Pension Fund and Municipal Pension Plan.**

See also "*Actuarial Methods and Assumptions*" for a discussion of the City of Philadelphia Municipal Retirement System Experience Study Results and Recommendations for the period covering July 1, 2008 through June 30, 2013 (the "Experience Study") submitted by the Actuary to the Pension Board on March 27, 2014.

***Employee Participants and Membership in Municipal Pension Plan***

Total membership in the City's Municipal Retirement System increased by 0.7% from July 1, 2012 to July 1, 2013 from 64,485 to 64,958 members, including an increase of 1.8% in active members from 26,306 to 26,788. Between such dates, annual salaries increased by 4.2% from approximately $1.372 billion to $1.430 billion; average salary per active member increased by 2.3% from $52,162 to $53,372; annual retirement allowances increased by 4.6% from approximately $646.92 million to $676.63 million and the average retirement allowance increased by 3.5% from $18,969 to $19,634.

Non-uniformed represented employees become vested in the Municipal Pension Plan upon the completion of ten years of service or may elect accelerated vesting after five years of service and pay a higher employee contribution; provided that such accelerated vesting is required for exempt employees hired after January 13, 1999. Upon retirement, non-uniformed employees may receive up to 100% of their average final compensation depending upon their years of credited service and the plan in which they participate. Generally, uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service. Upon retirement, uniformed employees may receive up to 100% of their average final compensation depending upon their years of credited service and the plan in which they participate. City employees participate in arrangements set forth under one of three municipal pensions programs known as Plan 67, Plan 87 and Plan 10, depending, primarily, on such employee's date of hire. The retirement age differs for Plan 67 (age 55) and Plan 87 and Plan 10 (age 60) for non-uniformed employees and also for Plan 67 (age 45) and Plan 87 and Plan 10 (age 50) for uniformed employees.

Police employees hired on or after January 1, 2010 and Fire employees hired after October 15, 2010 have the option to participate in Plan 10, which has a defined benefit plan with a different benefit calculation formula and eligibility and vesting rules and a defined contribution plan with eligibility for City matching contributions, or enter Plan 87 but with an increased employee contribution rate of 6.0% of pay instead of 5.0%. Represented employees of the Sheriff's Office hired after January 1, 2012 have the option to participate in municipal Plan 10, which also has a defined benefit plan with a different benefit calculation formula and eligibility and vesting rules and a defined contribution plan with eligibility for City matching contributions, or enter Plan 87 but with an increased employee contribution rate of 50% of normal cost instead of 30% of normal cost. Represented employees of the Register of Wills hired after June 21, 2011 are required to participate in municipal Plan 10. See also "Overview of Current Labor Situation."

All City employees participate in the U.S. Social Security retirement system except for Police and Fire employees.

Certain membership information relating to the City's municipal retirement system provided by the Pension Board is set forth in Appendix A to the 2013 Actuarial Report and includes as of July 1, 2013, among other information, active and non-active member data by plan, age/service distribution for active participants and average salary for all plans, and age and benefit distributions for non-active member data. See also Appendix D to the 2013 Actuarial Report for a summary of the provisions of Plan 67, Plan 87 and Plan 10 including, among other things, plan provisions regarding: participation, credited service, compensation, employee contributions, service requirements, early retirement, deferred vested retirements, withdrawal benefit, service-connected and ordinary death and disability, survivor benefits, service-connected health care benefit and a description of the deferred retirement option plan (DROP).

***Investments***

The allocation of assets in the Municipal Pension Fund as of February 28, 2014 as well as the target allocation is set forth below:

**Table 17**
**Asset Allocation as of May 31 , 2014**

| | Domestic Equity | Non-US Equity | Total Fixed Income | Private Equity | Hedge Funds | Real Assets | Cash & Other |
|---|---|---|---|---|---|---|---|
| Current Allocation | 25.28% | 20.12% | 22.45% | 10.29% | 10.86% | 8.51% | 2.49% |
| Target Allocation | 20.00% | 20.00% | 21.00% | 17.00% | 12.00% | 8.00% | 2.00% |

Source: Current Allocation – J.P. Morgan
Target Allocation – Approved by Board of Trustees October 2012, reaffirmed December 2013
*Totals may not add due to rounding.*

The Pension Board's investment policy provides, in part:

- The overall investment objectives and goals should be achieved by use of a diversified portfolio, with safety of principal a primary emphasis. The portfolio policy should employ flexibility by prudent diversification into various asset classes based upon the relative expected risk-reward relationship of the asset classes and the expected correlation of their returns.

- The Fund seeks an annual total rate of return of not less than 7.85% over a full market cycle. It is anticipated that this return standard should enable the Fund to meet its actuarially assumed earnings projections (currently 7.85%) over a market cycle. Accordingly, the Fund's investment program will pursue its aforestated total rate of return by a combination of income and appreciation, relying upon neither exclusively in evaluating a prospective investment for the Fund.

- All investments are made only upon recommendation of the Fund's Investment Committee and approval by a majority of the Pension Board.

For Fiscal Year 2013, the Fund's market return determined for funding purposes was 10.9% and the actuarial return was 5.1%. During Fiscal Years 2012-13, the Fund was in the process of implementing the then recently approved asset allocation and City officials believe the returns during Fiscal Years 2012-13 reflect the timing of the transition. Accordingly, a number of managers were terminated and new relationships created. The objective of establishing new relationships is, among other things, to reduce the risk profile of the fund and reduce management fees.

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The following table sets forth for the City's Fiscal Years 2004-2013 the market value of assets internal rate of return and actuarial value of assets internal rate of return experienced by the Municipal Pension Fund, and the assumed rate of return. The 5-year and 10-year arithmetic average returns as of June 30, 2013 were 4.89% and 7.47%, respectively on a market value basis.

**Table 18**
**Municipal Pension Fund**
**Annual Rates of Return**

| Year Ending June 30, | Market Value | Actuarial Value* | Assumed Rate of Return |
|---|---|---|---|
| 2004 | 16.6% | 4.6% | 9.00% |
| 2005 | 9.9 | 1.8 | 8.75 |
| 2006 | 11.3 | 6.1 | 8.75 |
| 2007 | 17.0 | 10.7 | 8.75 |
| 2008 | -4.5 | 10.1 | 8.75 |
| 2009 | -19.9 | -9.3 | 8.75 |
| 2010 | 13.8 | 12.9 | 8.25 |
| 2011 | 19.4 | 9.9 | 8.15 |
| 2012 | 0.2 | 2.4 | 8.10 |
| 2013 | 10.9 | 5.1 | 7.95 |

Source: 2013 Actuarial Report for Market and Actuarial Value annual rates of return; annual Actuarial Valuation Reports prepared by Mercer Human Resources Consulting for Fiscal Years 2004-2006 and Cheiron for Fiscal Years 2007-2013 for Assumed Rates of Return.

* Net of Pension Adjustment Fund (PAF). See "*Pension Adjustment Fund*" below.

The following table sets forth as of the July 1st actuarial valuation date for the years 2004-2013 the actuarial and market value of assets in the Municipal Pension Fund and the actuarial value as a percentage of market value.

**Table 19**
**Asset Smoothed Value of Assets vs. Market Value of Net Assets**
**(Amounts in Millions of USD)**

| Actuarial Valuation Date | Actuarial Value of Assets(1) | Market Value of Net Assets(2) | Actuarial Value as a Percentage of Market Value |
|---|---|---|---|
| 7/1/2004 | $ 4,333.1 | $ 3,972.4 | 109.1% |
| 7/1/2005 | 4,159.5 | 4,100.6 | 101.4 |
| 7/1/2006 | 4,168.5 | 4,315.6 | 96.6 |
| 7/1/2007 | 4,421.7 | 4,850.9 | 91.2 |
| 7/1/2008 | 4,623.6 | 4,383.5 | 105.5 |
| 7/1/2009 | 4,042.1 | 3,368.4 | 120.0 |
| 7/1/2010(3) | 4,380.9 | 3,650.7 | 120.0 |
| 7/1/2011(3) | 4,719.1 | 4,259.2 | 110.8 |
| 7/1/2012(3) | 4,716.8 | 4,151.8 | 113.6 |
| 7/1/2013 | 4,799.3 | 4,444.1 | 108.0 |

Source: 2013 Actuarial Report for Actuarial Value of Assets; 2004-2013 Actuarial Reports for Market Value of Net Assets

(1) The Actuarial Value of Assets is calculated through use of an asset smoothing method. See "Funded Status of the Municipal Pension Fund" below regarding changes made to the asset smoothing method in response to the 2008/2009 market decline.
(2) The Market Value of Net Assets excludes the Pension Adjustment Fund which as of July 1, 2013 equaled $1,096,608.
(3) The July 1, 2010 actuarial and market values of assets include the $150 million deferred contribution from Fiscal Year 2010, and the July 1, 2011 and July 1, 2012 actuarial and market values of assets include the total deferred contribution of $230 million.

During the Pension Board's meeting of March 27, 2014, the market value of Municipal Pension Fund assets as of February 28, 2014 was presented as $4,509,389,504. This figure has yet to be certified or audited.

The 2013 Actuarial Report notes that regardless of whether the Municipal Pension Fund achieves the assumed long-term rate of return of 7.85%, the funding ratio can be adversely impacted by volatile returns year by year. The 2013 Actuarial Report further notes that this component of funding risks is driven by negative cash flows (where benefit payments and expenses are greater than contributions) and that when a mature fund (such as the Municipal Pension Fund) pays out more than it receives in a year and returns are below the assumed rate of return, the assets that get paid out of the fund are no longer available in the fund during subsequent years of market recovery. The 2013 Actuarial Report includes projections with respect to the Municipal Pension Fund based upon assumed consistent annual returns of 7.85% each year and assumed varying returns that average 7.85%. See also *"Cash Flows of the Municipal Pension Fund"* below.

### *Cash Flows of the Municipal Pension Fund*

The following table sets forth for the City's Fiscal Years 2009-2013, the cash inflows, including employee contributions, City contributions, investment earnings and miscellaneous income, and cash outflows, including benefit payments and administration expenses for the Municipal Pension Fund. Debt service payments on the Pension Related Bonds (defined below) are made from the City's General Fund and not made from the Municipal Pension Fund.

**Table 20**
**Cash Flow of the Municipal Pension Fund**
**Fiscal Years 2009-2013**
**(Amount in Thousands of USD)**

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Beginning Net Assets (Market Value)[1] | $4,424,075.3 | $3,375,767.1 | $3,501,602.1 | $4,030,215.9 | $3,922,816.8 |
| Cash Inflows | | | | | |
| - Member Contributions | 54,022.6 | 51,569.9 | 52,705.6 | 49,978.7 | 49,614.0 |
| - City Contributions[2][3] | 455,389.0 | 312,556.3 | 470,154.8 | 556,031.7 | 781,823.0 |
| - Investment Income[4] | (849,377.7) | 455,792.6 | 699,847.9 | 8,394.1 | 442,667.0 |
| - Miscellaneous Income[5] | (13,887.5) | (1,367.6) | 991.7 | (636.4) | 3,134.0 |
| Total | $ (353,853.6) | $ 818,551.2 | $1,223,700.0 | $ 613,768.0 | $1,277,238.0 |
| Cash Outflow | | | | | |
| - Benefits and Refunds | (685,872.9) | (684,642.0) | (687,033.5) | (712,684.5) | (746,490.0) |
| - Administration | (8,581.8) | (8,074.1) | (8,052.7) | (8,482.6) | (8,341.0) |
| Total | $ (694,454.7) | $ (692,716.2) | $ (695,086.2) | $ (721,167.1) | $(754,831.0) |
| Ending Net Assets (Market Value)[6] | $3,375,767.1 | $3,501,602.1 | $4,030,215.9 | $ 3,922,816.8 | $4,445,223.8 |

Source: 2009-2013 Actuarial Valuation Reports. Table may not add due to rounding.

(1) Includes the Pension Adjustment Fund which is not available for funding purposes.

(2) City Contributions include pension contributions from the Commonwealth which were in the amounts of $59.6 million, $59.2 million, $61.8 million, $87.6 million and $65.7 million for the City's 2009-2013 Fiscal Years, respectively.

(3) City contributions are the actual contributions for Fiscal Year 2010 and Fiscal Year 2011 which do not include deferred amounts of $150 million and $80 million, respectively.

(4) Investment income is shown net of fees and expenses.

(5) Miscellaneous income includes securities lending and other miscellaneous revenues.

(6) For Fiscal Year 2010, does not include the $150 million contribution receivable and for Fiscal Years 2011 and 2012 does not include the $230 million total contribution receivable that was paid back in October 2012.

### *Funded Status of the Municipal Pension Fund*

Based on the 2013 Actuarial Report, the UAAL was $5.327 billion which equals a funding ratio of approximately 47.4% and a UAAL as a percentage of covered payroll of approximately 373%, each based on actuarial assets of $4.799 billion. The market value of the net assets in the Municipal Pension Fund (excluding the

Pension Adjustment Fund) was $4.444 billion as of July 1, 2013, and the funding ratio based on such market value was approximately 43.9%.

The amortization of the UAAL was determined in accordance with the provisions of the Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act, 1984 ("Act 205"), as amended from time to time. Any increase or decrease in unfunded liabilities is amortized according to Act 205. Effective for the July 1, 2009 valuation, which defines the City's contribution obligation for the Fiscal Year ending on June 30, 2010, and subsequent valuations, which define the City's contribution obligation in subsequent fiscal years, and as further described below, the unfunded liability may be amortized over a fixed 30-year period as a level dollar amount pursuant to Act 44 which amends Act 205 to provide specific funding relief for the City.

As part of Act 44, which provided for a new method of determining municipal distress levels and alternative funding relief in response to the 2008/2009 market decline, the City adopted the fresh start amortization alternative of 30 years (previously 20 years remaining) and lowered the assumed rate of interest for funding valuation purposes from 8.75% to 8.25%. Along with these changes the asset smoothing method was changed from a five-year period to a ten-year period with the additional requirement that the actuarial asset value is not more than 120% nor less than 80% of the market value of assets. Additionally, the legislation allowed the City to defer a portion of its minimum municipal obligation payment in the amount of $150 million in Fiscal Year 2010 and $80 million in Fiscal Year 2011 to be paid (including interest due annually as accrued on the outstanding deferral) over the period ending in Fiscal Year 2014. The City applied the proceeds of certain bonds issued in October 2012, together with other available amounts, to repay the Municipal Pension Fund the entire outstanding $230.0 million of the deferred minimum municipal obligation payment and $58.0 million of aggregate interest due on such deferred contributions over the entire deferral period. The change in amortization period and the partial deferral were approved by the Pennsylvania General Assembly as part of Act 44.

On October 28, 2010, the Pension Board voted to further lower the Municipal Pension Fund's annual earnings assumption from 8.25% to 8.15%. In February of 2012, the Pension Board voted to lower the Municipal Pension Fund's annual earnings assumption from 8.15% to 8.10%. In March of 2013, the Pension Board voted to lower the Municipal Pension Fund's annual earnings assumption from 8.10% to 7.95%. In February of 2014 the Pension Board voted to lower the Municipal Pension Fund's annual earnings assumption from 7.95% to 7.85% and to add a 0.54% load to the actuarial liability to account for the present value of future Pension Adjustment Fund transfers. A reduction in the Municipal Pension Fund's annual earning assumption has the effect of increasing the MMO and the ARC to levels higher than what they would have been without such reduction but should reduce the degree of volatility in the MMO and ARC over time in the event that actual investment returns are below the assumed rates of return.

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The following two tables set forth as of the July 1st actuarial valuation date for the years 2004-2013, the asset value, the actuarial accrued liability, the UAAL, the funded ratio, covered payroll and UAAL as a percentage of covered payroll for the Municipal Pension Fund on actuarial and market value bases, respectively. The July 1, 2013 valuation results in both tables reflect the Pension Board's decision to decrease the assumed rate of return to 7.85% from 7.95% and a load of the actuarial liability by 0.54% to prefund future Pension Adjustment Fund transfers.

**Table 21**
**Schedule of Funding Progress (Actuarial Value)**
**(Amount in Millions of USD)**

| Actuarial Valuation Date | Actuarial Value of Assets[1] (a) | Actuarial Accrued Liability (b) | UAAL (Actuarial Value) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|
| 7/1/2004 | $4,333.1 | $7,247.7 | $2,914.6 | 59.8% | $1,266.0 | 230.2% |
| 7/1/2005 | 4,159.5 | 7,851.5 | 3,692.0 | 53.0 | 1,270.7 | 290.5 |
| 7/1/2006 | 4,168.5 | 8,083.7 | 3,915.2 | 51.6 | 1,319.4 | 296.7 |
| 7/1/2007 | 4,421.7 | 8,197.2 | 3,775.5 | 53.9 | 1,351.8 | 279.3 |
| 7/1/2008 | 4,623.6 | 8,402.2 | 3,778.7 | 55.0 | 1,456.5 | 259.4 |
| 7/1/2009 | 4,042.1 | 8,975.0 | 4,932.9 | 45.0 | 1,463.3 | 337.1 |
| 7/1/2010 | 4,380.9 | 9,317.1 | 4,936.2 | 47.0 | 1,421.2 | 347.3 |
| 7/1/2011 | 4,719.1[2] | 9,487.5 | 4,768.4 | 49.7 | 1,371.3 | 347.7 |
| 7/1/2012 | 4,716.8[2] | 9,799.9 | 5,083.1 | 48.1 | 1,372.2 | 370.4 |
| 7/1/2013 | 4,799.3 | 10,126.2 | 5,326.9 | 47.4 | 1,429.7 | 372.6 |

Source: 2013 Actuarial Report.

(1) The July 1, 2010 Actuarial Value of Assets includes the $150 million deferred contribution from Fiscal Year 2010 and each of the July 1, 2011 and July 1, 2012 Actuarial Value of Assets includes the total deferred contribution of $230 million.

(2) Reflects the assumed rate of return on deferred contributions at the time of the deferral.

**Table 22**
**Schedule of Funding Progress (Market Value)**
**(Amount in Millions of USD)**

| Actuarial Valuation Date | Market Value of Net Assets[1] (a) | Actuarial Accrued Liability (b) | UAAL (Market Value) (b-a) | Funded Ratio (Market Value) (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll (Market Value) [(b-a)/c] |
|---|---|---|---|---|---|---|
| 7/1/2004 | $3,972.4 | $7,247.7 | $3,275.3 | 54.8% | $1,266.0 | 258.7% |
| 7/1/2005 | 4,100.6 | 7,851.5 | 3,750.9 | 52.2 | 1,270.7 | 295.2 |
| 7/1/2006 | 4,315.6 | 8,083.7 | 3,768.1 | 53.4 | 1,319.4 | 285.6 |
| 7/1/2007 | 4,850.9 | 8,197.2 | 3,346.3 | 59.2 | 1,351.8 | 247.5 |
| 7/1/2008 | 4,383.5 | 8,402.2 | 4,018.7 | 52.2 | 1,456.5 | 275.9 |
| 7/1/2009 | 3,368.4 | 8,975.0 | 5,606.6 | 37.5 | 1,463.3 | 383.2 |
| 7/1/2010 | 3,650.7 | 9,317.0 | 5,666.3 | 39.2 | 1,421.2 | 398.7 |
| 7/1/2011 | 4,259.2 | 9,487.5 | 5,228.3 | 44.9 | 1,371.3 | 381.3 |
| 7/1/2012 | 4,151.8 | 9,799.9 | 5,648.1 | 42.4 | 1,372.2 | 411.6 |
| 7/1/2013 | 4,444.1 | 10,126.2 | 5,682.1 | 43.9 | 1,429.7 | 397.4 |

Source: 2004-2013 Actuarial Valuation Reports

(1) The July 1, 2010 Market Value of Net Assets includes the $150 million deferred contribution from Fiscal Year 2010 and each of the July 1, 2011 and July 1, 2012 Market Value of Net Assets includes the total deferred contribution of $230 million.

***Annual Required Contributions***

The following table sets forth for the City's Fiscal Years 2004-2013, information related to the City's annual pension contributions including, among other information, the MMO, the ARC for the Municipal Pension Fund under the pension fund's funding policy, the percentage of the ARC contributed, General Fund total expenditures, and each of the MMO and the ARC under the pension fund's funding policy as a percentage of General Fund total expenditures. The ARC is the annual amount to be funded in accordance with the Municipal Pension Fund funding policy adopted by the Pension Board (the "Pension Board Funding Policy"). The City is not required under law or pursuant to contract to contribute to the Municipal Pension Plan in accordance with the Pension Board Funding Policy. Since 2004, the City has been making contributions to the Municipal Pension Fund based primarily upon the MMO rather than the Pension Board Funding Policy. See "*Comparison of State Law (MMO) and Pension Board Funding Policy Funding Methods*" below.

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**Table 23**
**Annual City Contribution Status for the Municipal Pension Fund**
**(Amount in Millions of USD)**

| Fiscal Year | MMO | ARC | All City Funds Total Actual Contribution[1] | Percentage of ARC Contributed | General Fund Contribution | Commonwealth Contribution | City Interfund Transfers[2] | Total General Fund Expenditures | General Fund-Estimated portion of the MMO as % of Total General Fund Expenditures | ARC as % of Total General Fund Expenditures | General Fund-Estimated portion of the ARC as % of Total General Fund Expenditures |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2004 | $195.8 | $253.8 | $193.1 | 76.1% | $124.2 | $42.8 | $26.1 | $3,248.18 | 5.2% | 7.8% | 6.8% |
| 2005 | 294.0 | 358.1 | 309.0 | 86.3 | 224.2 | 49.8 | 35.0 | 3,386.34 | 7.6 | 10.6 | 9.4 |
| 2006 | 306.9 | 395.0 | 331.8 | 84.0 | 231.2 | 57.3 | 43.3 | 3,426.05 | 7.7 | 11.5 | 10.0 |
| 2007 | 400.3 | 527.9 | 432.3 | 81.9 | 317.5 | 57.7 | 57.1 | 3,736.66 | 9.2 | 14.1 | 12.3 |
| 2008 | 412.4 | 536.9 | 426.9 | 79.5 | 305.5 | 59.6 | 61.8 | 3,919.84 | 8.9 | 13.7 | 11.7 |
| 2009 | 438.5 | 539.5 | 455.4 | 84.4 | 332.1 | 59.6 | 63.7 | 3,915.29 | 9.6 | 13.8 | 11.9 |
| 2010 | 447.4 | 581.1 | 312.6 | 53.8[3] | 204.0 | 59.2 | 49.3 | 3,653.73 | 10.9 | 15.9 | 13.4 |
| 2011 | 511.0 | 715.5 | 470.2 | 65.7[3] | 343.4 | 61.8 | 65.0 | 3,785.29 | 11.8 | 18.9 | 16.3 |
| 2012 | 507.0 | 722.5 | 556.0 | 77.0 | 376.9 | 95.0 | 84.1 | 3,484.88[4] | 12.1 | 20.7 | 17.6 |
| 2013 | 492.0 | 738.0 | 781.8[5] | 104.2 | 626.3 | 65.7 | 89.8 | 3,613.27 | 11.1 | 20.4 | 18.4 |

Source: 2004-2013 Actuarial Valuation Reports and the City.

(1) Includes amounts shown under Commonwealth Contribution and City Interfund Transfers columns. Does not include debt service on the 1999 Pension Obligation Bonds and certain debt incurred to refinance existing pension deferral repayment obligations (outstanding together in the aggregate principal amount of $1,294,825,350 on June 30, 2013). See also "Pension Obligation Bonds" and "Funded Status of the Municipal Pension Fund."

(2) Represents amounts contributed, or reimbursed, to the City's General Fund for pensions from the City's Water Operating Fund, Aviation Operating Fund and certain other City funds or agencies.

(3) Reflects the actual contributions contributed for Fiscal Year 2010 and Fiscal Year 2011 which does not include the deferred contributions authorized pursuant to Act 44. See "Funded Status of the Municipal Pension Fund" above for a discussion of pension contribution deferrals authorized pursuant to Act 44.

(4) In Fiscal Year 2012, reimbursed costs and corresponding revenues for services provided by DHS of approximately $495.1 million were moved from the General Fund to the Grants Revenue Fund.

(5) Includes repayment of deferred contributions authorized pursuant to Act 44 and related accrued interest. See also "Funded Status of the Municipal Pension Fund."

For Fiscal Year 2014, the City's All City Funds Total Actual Contribution to the Municipal Pension Fund (determined on a similar basis to the corresponding column in Table 23) is expected to be approximately $533.369 million. Such contribution is intended to equal at least the MMO for Fiscal Year 2014 of $533.369 million. The preliminary General Fund portion of the Fiscal Year 2014 MMO is $446.109 million.

The amounts of Commonwealth Contributions and City Interfund transfers for pensions do not affect the MMO requirement, but can be and are counted toward the City's contribution to the MMO.

***Comparison of State Law (MMO) and Pension Board Funding Policy Funding Methods***

Pennsylvania state law (Act 205) and the Pension Board Funding Policy result in different contribution amounts based upon two different sets of rules for determining how the UAAL is funded. The state law method defines the MMO which is the City's minimum required contribution under Pennsylvania state law. A second method operates in accordance with the Pension Board Funding Policy which predates the Act 205 requirements and calls for contributions that are greater than the MMO until the Municipal Pension Fund's initial July 1, 1985 unfunded actuarial accrued liability is fully funded. Since 2004, the City has been making contributions to the Municipal Pension Fund based primarily upon the MMO rather than the Pension Board Funding Policy due to fiscal constraints while adhering to the requirements of state law. The City's proposed Twenty-Third Five-Year Plan projects continued funding based upon the MMO level rather than the Pension Board Funding Policy level also due to fiscal constraints while adhering to the requirements of state law. Under both funding methods there are two components: the normal cost and the amortized UAAL. The amortization periods related to the UAAL are different under the MMO and the Pension Board Funding Policy. Due to the contribution deferrals in the City's Fiscal Years ended June 30, 2010 and June 30, 2011 pursuant to Act 44, there is an additional component to the MMO to include interest on deferred contributions and to repay these contributions beginning in the City's Fiscal Year ending June 30, 2013. The City repaid such deferred contributions and accrued interest thereon with proceeds of certain bonds issued in October 2012, together with certain other available amounts. Certain differences between the MMO and the Pension Board Funding Policy are:

- The Pension Board Funding Policy amortizes the initial July 1, 1985 unfunded actuarial accrued liability over 34 years. Act 44 allowed for the amortization of the entire unfunded actuarial accrued liability as of July 1, 2009 to be "fresh started" over a 30-year period for MMO purposes.

- The normal cost portion of the Pension Board Funding Policy payment is based on actual fiscal year payroll, whereas the MMO is based on the prior year's estimated payroll for that year.

- Interest does not accumulate on the MMO, as long as the payment is made by the end of the fiscal year.

- Both the Pension Board Funding Policy and the MMO utilize valuation results developed in the previous year (e.g., the July 1, 2013 valuation report determined contribution amounts for Fiscal Year 2015). However, no interest is added to the MMO for this delay.

- The MMO reflects amortization of prior years' City contributions above past MMOs as actuarial gains.

- Starting with Fiscal Years 2007-2008, the MMO recognized actuarial gains and losses every other year. Beginning with Fiscal Year 2012, gains and losses are recognized annually. The Pension Board Funding Policy recognizes actuarial gains and losses on an annual basis.

### *Annual Pension Cost and Net Pension Obligation*

The following table sets forth for the City's Fiscal Years 2004-2013, the calculation of the annual pension cost and the Net Pension Obligation ("NPO") (or Net Pension Asset) for the Municipal Pension Fund. The NPO is the accumulated value of contribution deficiencies (or excesses) over required contributions between the annual pension cost and the employer's contribution. The annual pension cost is equal to the ARC, one year's interest on the NPO and an adjustment to the ARC to offset, approximately, the amount included in the ARC for amortization of past contribution deficiencies. See also "*Pension Obligation Bonds*" regarding the impact on the NPO (Net Pension Asset) due to the City's financing in Fiscal Year 1999 of a lump-sum contribution to the Municipal Pension Fund.

**Table 24**
**Calculation of Annual Pension Cost**
**(Amounts in Thousands of USD)**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| ARC | $253,844 | $358,141 | $394,950 | $527,925 | $536,874 | $539,464 | $581,123 | $715,544 | $722,491 | $738,010 |
| Interest on NPO | (98,392) | (90,448) | (82,068) | (71,541) | (60,685) | (48,957) | (39,899) | (14,155) | 6,521 | 19,756 |
| Adjustment to ARC | 135,638 | 124,687 | 113,135 | 99,953 | 84,785 | 68,399 | 55,744 | 20,353 | (9,435) | (28,660) |
| Annual Pension Cost | $291,090 | $392,380 | $426,017 | $556,337 | $560,974 | $558,906 | $596,968 | $721,742 | $719,577 | $729,106 |
| Contributions | 202,827 | 299,266 | 331,765 | 432,267 | 426,934 | 455,389 | 312,556 | 470,155 | 555,690 | 781,823 |
| Increase in NPO | $88,263 | $93,114 | $94,252 | $124,069 | $134,040 | $103,517 | $284,412 | $251,587 | $163,887 | $(52,717) |
| NPO at beginning of the year | (1,093,243) | (1,004,980) | (911,866) | (817,614) | (693,545) | (559,505) | (455,987) | (171,575) | 80,012 | 243,898 |
| NPO at end of the year | $(1,004,980) | $(911,866) | $(817,614) | $(693,545) | $(559,505) | $(455,987) | $(171,575) | $80,012 | $243,898 | $191,181 |
| Interest Rate | 9.00% | 9.00% | 9.00% | 8.75% | 8.75% | 8.75% | 8.75% | 8.25% | 8.15% | 8.10% |

Source: 2013 Actuarial Report.

### *Pension Obligation Bonds*

In Fiscal Year 1999, PAID issued $1.3 billion in pension funding bonds (the "1999 Pension Obligation Bonds") and in Fiscal Year 2013 issued the 2012 Service Agreement Revenue Refunding Bonds (hereinafter defined, and together with the 1999 Pension Obligation Bonds, the "Pension Related Bonds"), all on behalf of the City. The Pension Related Bonds are special, limited obligations of PAID and are secured by payments to be made by the City pursuant to service agreements. The City's service agreement payments with respect to the Pension Related Bonds are made from the City's General Fund. The City's payment obligations with respect to the Pension Related Bonds are not included within either the ARC or the MMO. Substantially all the net proceeds of the 1999 Pension Related Bonds were contributed, with other City funds, to make a contribution in Fiscal Year 1999 to the Municipal Pension Fund in the amount of approximately $1.506 billion. Consequently, this contribution resulted in an increase in the City's net pension asset by approximately $1.249 billion during Fiscal Year 1999. See Table 24 above for information regarding changes in the City's net pension obligations/(net pension assets) for Fiscal Years 2004 through 2013. See Section IV in the 2013 Actuarial Report for Pension Related Bond debt service shown allocated among the City's municipal, police and fire divisions. The 2012 Service Agreement Revenue Refunding Bonds refunded a portion of the 1999 Pension Obligation Bonds and financed a deposit of approximately $22.7 million to the Municipal Pension Fund from the refunding savings.

### *Pension Adjustment Fund*

Pursuant to §22-311 of the Philadelphia Code, the Pension Board has established a Pension Adjustment Fund (the "PAF"). In general, the PAF provides for additional benefit distributions to retirees and beneficiaries through the use of excess earnings of the Municipal Pension Fund. Benefit distributions may include a lump-sum

bonus payment, monthly pension increases, ad-hoc cost of living adjustments, or other increases determined by the Pension Board. Each fiscal year, the Pension Board shall determine whether there are excess earnings available to be credited to the PAF. Excess earnings that may be transferred to the PAF are limited to 50% of the earnings in excess of a rate equal to the sum of the assumed rate of investment return for the Municipal Pension Fund (currently 7.85%) plus 1.0% and are limited to 2.5%. Currently, 50% of earnings in excess of 8.85% up to 13.85% would be subject to being credited to the PAF. The determination of whether excess earnings exist is based upon an adjusted market value of assets which uses a 5-year smoothing of gains and losses. The market value of assets in the PAF as of July 1, 2013 was $1,096,608. The Board of Pensions adopted a policy to prefund the expected future transfers to the PAF through the adoption of a 0.54% load on the actuarial liabilities which has the impact of increasing the City's MMO to account for the probability that funds will be transferred to the PAF in the future based on excess investment returns.

***Projections of Funded Status***

The following table shows the projected future funding status of the Municipal Pension Fund, including the actuarially determined contribution, the actuarial value of assets, the actuarial accrued liability, UAAL and funded ratio. The Actuary notes in the 2013 Actuarial Report certain assumptions upon which the following projections are based. Included among such assumptions are: (i) the rates of return for the Municipal Pension Fund over the projection period will equal 7.85% annually, (ii) MMO contributions will be made each year, and (iii) the provisions of Act 205 as amended by Act 44 will remain in force during the projection period. See "*Actuarial Methods and Assumptions*" below and the 2013 Actuarial Report for a further discussion of the assumptions and methodologies used by the Actuary in preparing the 2013 Actuarial Report and the following projections. **Projections and actuarial assessments are "forward looking" statements and arebased upon assumptions which may not be fully realized in the future and are subject to change, including changes based upon the future experience of the City's Municipal Pension Fund and Municipal Pension Plan.**

**Table 25**
**Prospective Funded Status of the Municipal Pension Fund**
**(Amounts in Millions of USD)**

| Fiscal Year End | Actuarially Determined Contribution | Actuarial Value of Assets | Actuarial Accrued Liability | UAAL | Funded Ratio |
|---|---|---|---|---|---|
| 2014 | $523.4 | $4,743.8 | $10,182.4 | $5,438.6 | 46.6% |
| 2015 | 556.0 | 4,739.3 | 10,237.4 | 5,498.1 | 46.3% |
| 2016 | 577.2 | 4,751.8 | 10,289.3 | 5,537.5 | 46.2% |
| 2017 | 594.6 | 4,780.5 | 10,339.5 | 5,559.1 | 46.2% |
| 2018 | 611.2 | 4,884.7 | 10,447.2 | 5,562.5 | 46.8% |
| 2019 | 627.3 | 5,133.4 | 10,556.6 | 5,423.2 | 48.6% |

Source: The Actuary.

The 2013 Actuarial Report sets forth certain projections of the funded ratio of the Municipal Pension Fund to 2033. Such projections from the 2013 Actuarial Report indicate that funding at the MMO level, based on current assumptions and methods, will result in a slow improvement of funding after the full impact of the 2008/2009 investment losses are fully realized. Assuming varying returns on Municipal Pension Fund assets that average 7.85% annually, were the City to make annual contributions at the MMO level, the 2013 Actuarial Report projects that the Municipal Pension Fund's actuarial funded ratio would be at approximately 53% in 2024 and increase to 57% and 68% in 2029 and 2033, respectively. Based on the 2013 Actuarial Report, maintaining contributions at the MMO level would have the effect of increasing the Municipal Pension Fund's funded ratio at a slower rate, and to lower levels, than would be achieved were the City to make annual contributions in accordance with the Pension Board Funding Policy over the same projection period to 2033. No assurances can be given that the above-described

projections set forth in the 2013 Actuarial Report will be realized or that actual results will not differ materially from such projections.

The 2013 Actuarial Report states with respect to the funded status of the Municipal Pension Fund that, "This historic trend emphasizing the relative low funded status highlights the potential risk of running out of assets to pay benefits. However as long as the City adheres to the continued policy of contributing at least the Minimum Municipal Obligation, this risk will be avoided." On June 24, 2013, the Actuary provided a written response (the "June 2013 Response") to a request from the City to provide more detail regarding a prior statement regarding similar risks made with respect to the Municipal Pension Fund in the Actuary's report dated March 29, 2013 for the period ended July 1, 2012. The Actuary states in the June 2013 Response that all retirement systems are subject to solvency risk if there is an interruption of, or limitation on sufficient cash flows into a fund (i.e., contributions and investment income) and assets held by a fund to make cash flow payments out (i.e., benefits and expenses). The Actuary further states therein that "Because of the current funded status of the plan in 2012 [i.e., the Municipal Pension Fund] (42.4% on a market asset value) and the relatively high portion of benefit payments to market asset value (15.6%), we believe it is appropriate to identify insolvency as a risk." The Actuary then notes in the June 2013 Response certain factors specific to the Municipal Pension Fund that eliminate much of the risk of insolvency:

- "statutory required contributions under Act 205 with very significant cash incentives to preclude the City from failing to meet the [MMO] – in other words as long as the City makes [its] MMO there is no solvency risk";

- the continuous and gradual decrease of the discount rate resulting in higher required MMO amounts which the Actuary states has two impacts: lowering the long-term expected return on Municipal Pension Fund assets that has to be achieved and increasing the contribution from the City to offset the benefit payout cash flow; and

- "[t]he long history of the City contributing at least the MMO and for many years (until 2004) contributing in excess of the MMO."

The June 2013 Response concludes by providing that as long as the City continues to make its MMO payments, the Municipal Pension Fund "should remain solvent and capable of making the benefit payments called for under the [City's Municipal] Retirement System."

***Actuarial Methods and Assumptions***

The following is a summary of certain actuarial assumptions and methods utilized by the Actuary for the Municipal Pension Fund:

- The Entry Age Normal actuarial funding method is used for active employees whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement;

- The Municipal Pension Fund's UAAL as of July 1, 2009 was "fresh started" to be amortized over 30 years in level dollars;

- All future amortization periods will follow the Pension Board Funding Policy whereby actuarial gains and losses will be amortized over 20 years and assumption changes will be amortized over 15 years;

- The actuarial value of assets is determined using an adjusted market value recognizing investment gains or losses prior to July 1, 2009 over a five-year period, and beginning July 1, 2009, investment gains and losses are recognized over a 10-year period with adjustments so that the actuarial value of assets remains between 80% and 120% of market value (net of the PAF);

- Investment returns are assumed at 7.85% compounded annually, net of expenses;

- Total annual payroll growth is assumed to be 3.3% per year;

- A 0.54% load was added to the actuarial liability to account for the present value of future Pension Adjustment Fund transfers. Other than those provided from time to time by the PAF, there are no other post-retirement benefit increases; and

- Annual expected administrative expenses are expected to increase by 3.3% per year.

The Actuary's assumptions and methods are summarized in greater detail within Appendix C of the 2013 Actuarial Report and address, among other things, rates of termination, disability, mortality and retirement and family composition assumptions.

The Experience Study examines actual versus expected liabilities and assets of the City's Municipal Retirement System for the five-year period from July 1, 2008 through June 30, 2013 (the "Study Period") in compliance with Act 205. The Experience Study compares assumed versus actual experience with respect to all demographic assumptions (e.g., retirement rates, termination rates, disability rates and mortality rates) and economic assumptions (e.g., discount rate, inflation, payroll growth and administrative expenses) used in the preparation of the actuarial valuations for the plan years occurring during the Study Period.

The Experience Study states that during the five years of the Study Period, the net gain/loss of liabilities relative to assumptions was approximately $40 million (on average, $8 million per year). The Experience Study states that these changes "would be considered immaterial to the aggregate liability during this period" but further states that, "However there are material and consistent gains and losses that have for the most part offset each other masking trends and the need for adjustment." The Experience Study notes as an example that there have been consistent material gains from lower than expected salary growth which offset higher than expected liabilities for retirees living longer than expected.

The Experience Study states that the average annual liability experience loss during the ten plan years ended June 30, 2004 through 2014, inclusive, was $20.7 million or 0.24% of the average annual actuarial liability of $8.7 billion over that period. The Experience Study states that, "While this level of loss could be considered immaterial relative to the total System liabilities, the consistency suggests that more conservative assumptions would be appropriate." With respect to investments, the Experience Study notes that during the same 2004-2013 ten-year period, the average annual investment experience loss was $164.2 million or 3.7% of the average annual market value of assets of $4.4 billion over that ten-year period. The Experience Study comments with respect to the Pension Board's practice of reviewing and changing the investment/discount assumption almost annually that, "The data supports this policy as well as continual review and reduction of the long-term investment/discount rate assumption."

The Experience Study also presents for the Pension Board potential alternatives to several of the current actuarial assumptions for consideration for future plan years. On June 26, 2014, the Pension Board adopted certain changes to the actuarial assumptions and has requested the Actuary to calculate the impact of these changes on the Funding Level and on the MMO. The changes are expected to decrease the Funding Level and increase the MMO. The Actuary's preliminary projections estimate that over the five years of the Twenty-Third Financial Plan, the cumulative increase in the MMO will be less than $50 million and that the expected impact on the Funded Ratio will be minor. Copies of the Experience Study may be obtained through a request to the Pension Board at 2 Penn Plaza, Philadelphia, PA 19102. The Experience Study is not incorporated into this Official Statement by reference.

**Other Post-Employment Benefits**

The City self-administers a single employer, defined benefit plan and provides health care for five years subsequent to separation for eligible retirees who participate in the City Administered Plan. Eligible represented employees receive five years of coverage through their union's health fund. The City's funding obligation for such benefits is the same as for active employees. Certain union represented employees may defer their coverage until a later date. For some groups, the amount that the City pays for their health care is limited to the amount that the City would have paid at the date of their retirement, but for police and fire retirees, the City pays the cost of five years of

coverage when the employee receives the benefits. The City also provides lifetime insurance coverage for all eligible retirees. Firefighters are entitled to $7,500 coverage and all other employees receive $6,000 in coverage.

The City funds its retiree benefits on a pay-as-you-go basis. To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by union contracts (other than police) and is self-insured for nonunion employees and union police employees.

The City's annual other post-employment benefit ("OPEB") expense is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement No. 45. The ARC represents a level of funding, which if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years.

For Fiscal Year 2013, the City's ARC was $113.9 million and it contributed $57.1 million for OPEB expense; its net OPEB obligation for Fiscal Year 2013 was $166.3 million. As of July 1, 2013, the City's unfunded actuarial accrued liability for benefits was $1.5 billion.

Further information on the City's annual OPEB expense and net OPEB obligation for Fiscal Years 2011, 2012 and 2013 and the funded status of the OPEB benefits is contained in the Fiscal Year 2013 CAFR.

**PGW Pension Plan**

***General***

The City sponsors the Philadelphia Gas Works Pension Plan (the "PGW Pension Plan"), a single employer defined benefit plan, to provide pension benefits for all of PGW's employees and other eligible class employees of PFMC and the Philadelphia Gas Commission. As plan sponsor, the City, through its General Fund, could be responsible for plan liabilities if the PGW Pension Plan does not satisfy its payment obligations to PGW retirees. If the Sale of PGW is completed, it is expected that the PGW Pension Plan would be fully funded through sale proceeds. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services."

Covered employees hired prior to May 21, 2011 (union employees) or prior to December 21, 2011 (non-union employees) are not required to contribute to the PGW Pension Plan. In December 2011, the PGW Pension Plan was amended by ordinance and a new deferred compensation plan was authorized by ordinance as well. Newly hired employees have an irrevocable option to join either a new deferred compensation plan created in accordance with Internal Revenue Code Section 401 or the existing defined benefit plan, modified to include employee contributions not previously required. The deferred compensation plan provides for an employer contribution equal to 5.5% of applicable wages. The defined benefit plan provides for a newly hired employee contribution equal to 6.0% of applicable wages. The amendments to the PGW Pension Plan did not affect the retirement benefits of active employees, current retirees and beneficiaries, or terminated employees entitled to benefits but not yet receiving them. The PGW Pension Plan provides for retirement payments for vested employees at age 65 or earlier under various options. The PGW Pension Plan also provides death and disability benefits. Retirement benefits vest after five years of credited service.

PGW is required by statute to contribute the amounts necessary to fund the PGW Pension Plan. The PGW Pension Plan is being funded with contributions by PGW to the Sinking Fund Commission of the City. Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance.

***Pension Costs and Funding***

Pension costs increased by $0.358 million to $23.614 million in PGW's 2013 fiscal year ended August 31, 2013 as compared to the prior fiscal year due to higher payments to retirees. Beneficiary payments of $41.614 million were made in PGW's 2013 fiscal year. Withdrawals from the pension assets of $14.500 million were utilized to meet these beneficiary payments.

The PGW Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Actuarial assessments are "forward looking" statements and based upon assumptions which may not be fully realized in the future and are subject to change including changes based upon the future experience of the PGW Pension Plan. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. As of its September 1, 2012 actuarial valuation date, the PGW Pension Plan had an unfunded actuarial accrued liability of $137.780 million and a funded ratio of 74.8% based upon an actuarial value of assets of $421.780 million and an actuarial accrued liability of $585.632 million. The PGW Pension Plan's actuarial asset value is equal to the value of the plan's assets as reported by the City with no adjustments. The actuarial assumptions used for the September 1, 2012 valuation included a rate of return on the investment of present and future assets of 7.95% per year compounded annually. No assurances can be given that the PGW Pension Plan's assets will achieve the assumed rate of return for any particular time period. As of September 1, 2012, the covered payroll with respect to the PGW Pension Plan was $106.000 million and the UAAL as a percent of covered payroll was 139.5%. The UAAL is being amortized over 20 years.

PGW's annual pension cost is equal to its annual required contribution (ARC). PGW contributed 100% of the ARC for each of its 2011 through 2013 fiscal years in the annual amounts of $23.614 million, $23.972 million and $22.597 million, respectively. PGW had no net pension obligation as of the end of each of such fiscal years. PGW has budgeted $27.715 million for its pension contribution for its fiscal year ended August 31, 2014 which amount is intended to equal the ARC for such fiscal year.

***Additional Information***

The City issues a publicly available financial report that includes financial statements and required supplementary information for the PGW Pension Plan. The report is not incorporated into this Official Statement by reference. The report may be obtained by writing to the Office of the Director of Finance of the City.

Further information on the PGW Pension Plan, including with respect to its membership, plan description, funding policy, actuarial assumptions and funded status is contained in the City's Fiscal Year 2013 CAFR.

**PGW Other Post-Employment Benefits**

PGW provides post-employment healthcare and life insurance benefits to approximately 2,044 participating retirees and their beneficiaries and dependents in PGW's fiscal year ended August 31, 2013. The City, through its General Fund, could be responsible for costs associated with post-employment healthcare and life insurance benefits if PGW fails to satisfy its post-employment benefit obligations to PGW retirees or if PGW is sold to a purchaser and (1) the City retains the post-employment benefit obligation without fully funding the liability through sale proceeds or (2) the post-employment benefit obligation is transferred to a purchaser that subsequently fails to satisfy the benefit obligation.

PGW pays the full cost of medical, basic dental, and prescription coverage for employees who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided a choice of three plans at PGW's expense and can elect to pay toward a more expensive plan. PGW pays 100% of the cost for the prescription drug plan after drug co-pays. Union employees hired prior to May 21, 2011 and non-union employees hired prior to December 21, 2011 who retire from active service to immediately begin receiving pension benefits are entitled to receive lifetime post-retirement medical, prescription, and dental benefits for themselves and, depending on their retirement plan elections, their dependents.. Employees hired on or after those dates are entitled to receive only five years of post-retirement benefits. Currently, PGW provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go-basis.

As part of a July 29, 2010, rate case settlement (the "Rate Settlement"), which provided for the establishment of an irrevocable trust for the deposit of funds derived through a rider from all customer classes to fund OPEB liabilities, PGW established the trust in July 2010 and began funding the trust in accordance with the settlement agreement in September 2010. The Rate Settlement provides that PGW shall deposit $15.0 million annually towards the ARC and an additional $3.5 million annually, which represents a 30-year amortization of the

OPEB liability at August 31, 2010. These deposits will be funded primarily through increased rates of $16.0 million granted in the Rate Settlement.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period of 30 years.

The actuarial accrued liability for PGW's OPEB obligations as of August 31, 2013 was $436.527 million, assuming that PGW will continue to fund its OPEB obligations of $18.5 million per year pursuant to the Rate Settlement on an ongoing basis. The ratio of the unfunded actuarial accrued liability of $374.731 million for PGW's OPEB obligations to the covered payroll was 340.3% as of August 31, 2013, and the funded ratio of the OPEB trust assets (actuarial value basis) to the actuarial accrued liability was 14.2% as of such date. The valuation was prepared utilizing an 7.95% discount rate for purposes of developing the liabilities and the ARC for PGW's fiscal year ended August 31, 2013. This rate is based on the expected return of the investments of the OPEB trust.

For PGW's fiscal year ended August 31, 2013, PGW's ARC was $41.216 million and it contributed $42.242 million for OPEB expense, consisting of approximately $22.2 million of healthcare expenses, $1.5 million of life insurance expenses, and $18.5 million contributed to the OPEB trust. The net OPEB obligation for PGW's fiscal year ended August 31, 2013 was $109.060 million.

Further information on PGW's annual OPEB expense, net OPEB obligation and the funded status of the OPEB benefits related to PGW is contained in the City's Fiscal Year 2013 CAFR.

**Purchase of Services**

The City accounts for a number of expenditures as purchase of services. The following table presents major purchases of services in the General Fund in Fiscal Years 2007 through 2015.

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**Table 26**
**Purchase of Service in the General Fund**
**Fiscal Years 2007-2015**
**(Amounts in Millions of USD)**

| | Actual | | | | | | | Adopted Budget[10] | Current Estimate[11] | Adopted Budget[11] |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012[9] | 2013 | 2014 | 2014 | 2015 |
| Human Services[1] | 495.3 | 515.3 | 499.0 | 465.5 | 448.2 | 78.2 | 67.5 | 78.2 | 76.1 | 74.1 |
| Public Health | 65.5 | 65.1 | 67.9 | 64.7 | 66.1 | 63.0 | 62.9 | 60.9 | 60.9 | 61.0 |
| Public Property[2] | 156.3 | 139.5 | 142.6 | 136.2 | 138.7 | 139.5 | 139.5 | 141.1 | 141.8 | 147.7 |
| Streets[3] | 58.3 | 58.4 | 51.0 | 55.8 | 51.0 | 45.7 | 40.5 | 45.7 | 48.7 | 46.3 |
| Sinking Fund - Lease Debt[4] | 84.3 | 85.1 | 86.1 | 79.9 | 87.5 | 89.7 | 90.9 | 96.7 | 94.2 | 111.2 |
| Legal Services[5] | 35.4 | 37.3 | 37.3 | 35.9 | 36.6 | 37.3 | 38.7 | 40.1 | 40.6 | 41.8 |
| First Judicial District | 24.8 | 25.6 | 23.6 | 23.7 | 22.9 | 24.1 | 16.5 | 10.3 | 10.3 | 10.7 |
| Licenses & Inspections[6] | 11.4 | 11.9 | 9.6 | 8.2 | 4.1 | 7.0 | 7.1 | 7.1 | 10.1 | 10.0 |
| Supportive Housing [7] | 31.3 | 33.9 | 32.3 | 31.7 | 30.2 | 30.4 | 34.2 | 34.5 | 36.9 | 35.6 |
| Prisons | 87.5 | 93.6 | 110.7 | 106.4 | 106.6 | 104.0 | 105.4 | 104.2 | 106.4 | 105.1 |
| All Other[8] | 101.5 | 123.0 | 114.1 | 103.4 | 131.0 | 141.9 | 154.6 | 171.8 | 173.6 | 171.4 |
| Total | 1,151.6 | 1,188.7 | 1,174.2 | 1,111.4 | 1,127.9 | 760.8 | 757.8 | 790.6 | 799.6 | 814.9 |

(1) Includes payments for care of dependent and delinquent children.
(2) Includes payments for SEPTA, space rentals, utilities, and telecommunications. In Fiscal Year 2008, the telecommunications division was transferred to the Managing Director – Office of Innovation and Technology ("OIT"). Services purchased for OIT appear in the table under the category "All Other."
(3) Includes solid waste disposal costs.
(4) Includes, among other things, Justice Center, Neighborhood Transformation Initiative and Stadium lease debt.
(5) Includes payments to the Defender Association to provide legal representation for indigents.
(6) Includes payments for demolition in Fiscal Year 2007 through Fiscal Year 2012.
(7) Includes homeless shelter and boarding home payments.
(8) Includes payment for Convention Center Subsidy and Vehicle leasing.
(9) The reduction in Human Services purchases in Fiscal Year 2012 is largely the result of the transfer of the majority of DHS revenue and obligations to the Grants Revenue Fund.
(10) From the estimates for the Adopted Fiscal Year 2014 Budget.
(11) From the Adopted Fiscal Year 2015 Budget.

Figures may not add up due to rounding.

## City Payments to School District

In each fiscal year since Fiscal Year 1996, the City has made an annual grant of $15 million to the School District. Pursuant to negotiations with the Commonwealth to address the School District's then current and future educational and fiscal situation, the Mayor and City Council agreed to provide the School District with an additional annual $20 million beginning in Fiscal Year 2002. In Fiscal Year 2008, the Mayor and City Council agreed to provide an additional $2 million, bringing the total contribution to $37 million. In Fiscal Year 2010, the City made a $38.5 million contribution. In Fiscal Year 2011, the City made a $38.6 million contribution. In Fiscal Year 2012, the City made a contribution of $48.9 million, which included an additional contribution of $10 million over the previous fiscal year. In Fiscal Year 2013, the City's contribution included a contribution of $48.9 million along with an additional contribution of $20 million, bringing the total contribution to $68.9 million. The additional contribution of $20 million was derived from an increase in the City real estate tax rate. The Approved Fiscal Year 2014 Budget includes a contribution of $69.1 million and the current estimate for Fiscal Year 2014 includes an additional $45 million one-time contribution that was passed through from the State and $27.3 million of bonds issued by PAID for the benefit of the School District bringing the total contribution to $141.4 million for Fiscal Year 2014. The Adopted Fiscal Year 2015 Budget includes a contribution of $69.1 million. In addition, beginning in Fiscal Year 2014, the City will forgive annual payment by the School District of $2.0 million for reimbursement of costs of the Office of Property Assessment.

See "REVENUES OF THE CITY-Sales and Use Tax" for a discussion of changes and proposed changes in the funding to be provided to the School District by the City.

Section 696 of the School Code (commonly referred to as "Act 46") imposes on the City a maintenance of effort obligation with respect to the School District. For so long as the School District remains subject to a declaration of "distress" by the Secretary of Education, the City is obligated to continue paying over to the School District each year an amount at least equal to the amount paid over to the School District in the previous year; and is obligated to continue authorizing for the School District tax rates at least equal to the rates of taxation authorized by the City for the School District in the previous year ("Maintenance of Effort Obligation"). The School District was declared distressed effective December 22, 2001. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA - Local Government Agencies - The School District."

See also "REVENUES OF THE CITY-Real Property Taxes" for a discussion of the transition to AVI.

**PGW Annual Payments**

To assist PGW, (i) the City agreed to forgo the $18,000,000 annual payment required to be made by PGW to the City in Fiscal Year 2004, (ii) for Fiscal Years 2005, 2006, 2007, 2008, 2009 and 2010 the City made a grant to PGW equal to the annual payment received from PGW in such fiscal years. In Fiscal Year 2011, PGW remitted to the City the required annual payment of $18,000,000. The City's Twentieth Five-Year Plan included the PGW annual payment of $18,000,000 to the City's General Fund but discontinued the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2012, 2013, 2014, 2015 and 2016. The City's Twenty-First Five-Year Plan included the PGW annual payment of $18,000,000 to the City's General Fund and discontinued the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2013, 2014, 2015, 2016 and 2017. The City's Twenty-Second Five-Year Plan includes the PGW annual payment of $18,000,000 to the City's General Fund and discontinues the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2014, 2015, 2016, 2017 and 2018. The City has entered into the Agreement for the Sale of PGW to Buyer which would eliminate this payment in future years. The City's proposed Twenty-Third Five-Year Plan includes half of the Fiscal Year 2015 payment ($9,000,000) based on an expected sale date of December 2014 and no payment thereafter. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA-Government Services."

**City Payments to SEPTA**

The City made operating subsidy payments to SEPTA in Fiscal Years 2008, 2009, 2010, 2011, 2012 and 2013 of $61.3 million, $62.9 million, $64.2 million, $65.9 million, $66.4 million and $65.2 million, respectively. The Adopted Fiscal Year 2014 Budget and current estimate for Fiscal Year 2014 operating subsidy payments to SEPTA is $67.1 million. The Adopted Fiscal Year 2015 Budget includes an operating subsidy payment of $70.4 million and the revised Twenty-Third Five-Year Plan projects operating subsidy payments to SEPTA will increase to $85.6 million by Fiscal Year 2019.

**City Payments to Convention Center Authority**

In connection with the financing of the expansion to the Pennsylvania Convention Center and the refinancing of debt for the original Pennsylvania Convention Center construction, the Commonwealth, the City and the Convention Center Authority entered into an operating agreement in 2010, providing for the operation of the Convention Center by the Convention Center Authority and pursuant to which the City agreed to pay the Convention Center Authority an annual service fee of $15,000,000 in each Fiscal Year through Fiscal Year 2040 and specified percentages of the City's hotel room rental tax and hospitality promotion tax, subject to certain conditions.

## CITY CASH MANAGEMENT AND INVESTMENT POLICIES

**General Fund Cash Flow**

Because the receipts of General Fund revenues lag behind expenditures during most of each fiscal year, the City issues notes in anticipation of General Fund revenues and makes payments from the Consolidated Cash Account to finance its on-going operations. The City has issued notes in anticipation of the receipt of income by the

General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each issue was repaid when due, prior to the end of the fiscal year.

The timing imbalance referred to above results from a number of factors, principally the following: (1) real property, business privilege tax and certain other taxes are not due until the latter part of the fiscal year; and (2) the City experiences lags in reimbursement from other governmental entities for expenditures initially made by the City in connection with programs funded by other governments.

The City issued $285 million of Tax and Revenue Anticipation Notes in July 2010. These notes were repaid in June, 2011. The City issued Tax and Revenue Anticipation Notes in the amount of $173 million in December 2011 which were repaid in June 2012. The City issued Tax and Revenue Anticipation Notes in the amount of $127 million in December 2012 which matured in June, 2013. The City issued Tax and Revenue Anticipation Notes in the amount of $100 million in December 2013 which matured on June 30, 2014. The City pays the principal amount of these notes to a trust 30 days prior to maturity, and made this payment on May 23, 2014.

**Consolidated Cash**

The Act of the General Assembly of the Commonwealth of June 25, 1919, P.L. 581, Art. XVII, § 6, gives the City the authority to make temporary inter-fund loans between operating and capital funds.

The Consolidated Cash Account provides for the physical commingling of the cash of all City Funds, except those which, for legal or contractual reasons, cannot be commingled (e.g., the Municipal Pension Fund, sinking funds, sinking fund reserves, funds of PGW, the Water Fund, the Aviation Fund and certain other restricted purpose funds). A separate accounting is maintained for the equity of each member fund in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to the following procedures:

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, the required advance is made from the Consolidated Cash Account, in the amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a borrowing fund are applied in repayment of the advance.

All advances are made within the budgetary constraints of the borrowing funds. Within the General Fund, this system of inter-fund advances has historically resulted in the temporary use of tax revenues or other operating revenues for capital purposes and the temporary use of capital funds for operating purposes. With the movement of the reimbursable component of DHS activities from the General Fund to the Grants Revenue Fund, a similar system of advances has resulted in the use of tax revenues or other operating revenues in the General Fund to make expenditures from the Grants Revenue Fund, which advances may be outstanding for multiple fiscal years, but which are expected to be reimbursed by the Commonwealth.

Procedures governing the City's cash management operations require the General Fund-related operating fund to borrow initially from the General Fund-related capital fund, and only to the extent there is a deficiency in such fund may the General Fund-related operating fund borrow money from any other funds in the Consolidated Cash Account.

**Investment Practices**

Cash balances in each of the City's funds are managed to maintain daily liquidity to pay expenses, and make investments that preserve principal while striving to obtain the maximum rate of return. In accordance with the Home Rule Charter, the City Treasurer is the City Official responsible for managing cash collected into the City Treasury. The available cash balances in excess of daily expenses are placed in demand accounts, swept into money market mutual funds, or used to make investments directed by professional money managers. These investments are held in segregated trust accounts at a separate financial institution. Cash balances related to Revenue Bonds for Water and Sewer and the Airport are directly deposited and held separately in trust. A Fiscal Agent manages these cash balances per the related bond documents and the investment practice is guided by administrative direction of

the City Treasurer per the Investment Committee and the Investment Policy. In addition, certain operating cash deposits (such as Community Behavioral Health, Special Gas/County Liquid and "911" surcharge) of the City are restricted by purpose and required to be segregated into accounts in compliance with Federal or State reporting.

Investment guidelines for the City are embodied in legislation approved by City Council appearing in the Philadelphia City Code, Chapter 19-202. In furtherance of the City, State, and Federal legislative guidelines, the Director of Finance adopted a written Investment Policy (the "Policy") that first went into effect in August 1994 and most recently was revised in January 2011. The Policy supplements other legal requirements and establishes a comprehensive investment policy for the overall administration and effective management of all monetary funds (except the Municipal Pension Fund and PGW Retirement Reserve Fund).

The Policy delineates the authorized investments as approved by City Council Ordinance and the funds to which the Policy applies. The authorized investments include U.S. government securities, U.S. treasuries, U.S. agencies, repurchase agreements, commercial paper, corporate bonds, money market mutual funds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through securities directly issued by a federal agency of the United States, all of investment grade rating or better.

U.S. government treasury and agency securities carry no limitation as to the percent of the total portfolio. Repurchase agreements, money market mutual funds, commercial paper, and corporate bonds are limited to investment of no more than 25% of the total portfolio. Obligations of the Commonwealth and collateralized banker's acceptances and certificates of deposit are limited to no more than 15% of the total portfolio. Collateralized mortgage obligations and pass-through securities directly issued by a federal agency of the United States are limited to no more than 5% of the total portfolio.

U.S. government treasury and agency securities carry no limitation as to the percent of the total portfolio per issuer. Repurchase agreements and money market mutual funds are limited to no more than 10% of the total portfolio per issuer. Commercial paper, corporate bonds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through securities directly issued by a federal agency of the United States are limited to no more than 3% of the total portfolio per issuer.

The Policy also restricts investments to those having a maximum maturity of two years. Daily liquidity is maintained through the use of SEC-registered money market mutual funds with the balance of funds invested by the City or money managers in accordance with the Policy.

The Policy provides for an ad hoc Investment Committee consisting of the Director of Finance and the City Treasurer with ex-officio membership of a representative of each of the principal operating and capital funds, i.e., Water Fund, Aviation Fund, PGW and PMA. The Investment Committee meets quarterly with each of the investment managers to review each manager's performance to date and to plan for the next quarter. Investment managers are given any changes in investment instructions at these meetings. The Investment Committee approves all modifications to the Policy. The Investment Committee may from time to time review and revise the Policy and does from time to time approve temporary waivers of the restrictions on assets based on cash management needs and recommendations of investment managers.

The Policy expressly forbids the use of any derivative investment product as well as investments in any security whose yield or market value does not follow the normal swings in interest rates. Examples of these types of securities include, but are not limited to: structured notes, floating rate or inverse floating rate instruments, securities that could result in zero interest accrual if held to maturity, and mortgage derived interest and principal only strips. The City currently makes no investments in derivatives.

## DEBT OF THE CITY

The Constitution of the Commonwealth provides that the authorized debt of the City "may be increased in such amount that the total debt of said City shall not exceed 13.5% of the average of the annual assessed valuations of the taxable realty therein, during the ten years immediately preceding the year in which such increase is made, but

said City shall not increase its indebtedness to an amount exceeding 3.0% upon such average assessed valuation of realty, without the consent of the electors thereof at a public election held in such manner as shall be provided by law." It has been judicially determined that bond authorizations once approved by the voters will not be reduced as a result of a subsequent decline in the average assessed value of City property.

The Constitution of the Commonwealth further provides that there shall be excluded from the computation of debt for purposes of the Constitutional debt limit, debt (herein called "self-supporting debt") incurred for revenue-producing capital improvements that may reasonably be expected to yield revenue in excess of operating expenses sufficient to pay interest and sinking fund charges thereon. In the case of general obligation debt, the amount of such self-supporting debt to be so excluded must be determined by the Court of Common Pleas of Philadelphia County upon petition by the City. Self-supporting debt is general obligation debt of the City, with the only distinction from tax-supported debt being that it is not used in the calculation of the Constitutional debt limit. Self-supporting debt has no lien on any particular revenues.

As of July 1, 2014, the Constitutional debt limitation for tax-supported general obligation debt was approximately $3,011,158,000. This amount is based upon a formula of 13.5% of the assessed value of taxable real estate within the City on a 10-year rolling average for a 10-year period ending with the year immediately preceding the year in which the increase in debt occurs. The total amount of authorized debt applicable to the debt limit was $1,613,749,000, including $587,654,000 of authorized but unissued debt, leaving a legal debt margin of $1,397,409,000. The calculation of the legal debt margin is as follows:

**Table 27**
**General Obligation Bonded Debt**
**July 1, 2014**
**(Amounts in Thousands)**

| | |
|---|---|
| Authorized, issued and outstanding | $1,439,550 |
| Authorized and unissued | 587,654 |
| Total | 2,027,204 |
| | |
| Less: Self-supporting debt | (353,766) |
| Less: Serial bonds maturing within a year | (59,689) |
| Total amount of authorized debt applicable to debt limit | 1,613,749 |
| Legal debt limit | 3,011,158 |
| Legal debt margin | $1,397,409 |

As a result of the implementation of the City's Actual Value Initiative, see "REVENUES OF THE CITY−Real Property Taxes," the assessed value of taxable real estate within the City has increased substantially. Such increase in assessed valuation along with the change in the methodology for calculating real estate taxes under AVI that allowed the City, in calculating the average described above, to include the valuation established in the prior year rather than the valuation that forms the basis of the taxes assessed in the prior year, has increased substantially the Constitutional debt limitation for tax-supported general obligation debt starting in 2014 as the higher valuations are averaged into the formula described above over the following ten years. The increase in such Constitutional debt limitation could be more than approximately $1 billion annually over such ten-year period.

The City is also empowered by statute to issue revenue bonds and, as of June 30, 2014 had outstanding $1,851,446,000 aggregate principal amount of Water and Wastewater Revenue Bonds, $1,058,920,000 aggregate principal amount of Gas Works Revenue Bonds, and $1,256,265,000 aggregate principal amount of Airport Revenue Bonds. As of the close of business on June 30, 2014, the principal amount of PICA bonds outstanding was $363,640,000.

**Short-Term Debt**

The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each note issue was repaid when due prior to the end of the fiscal

year of issuance. The City issued $100 million of Tax and Revenue Anticipation Notes on December 11, 2013, which matured and were paid in full on June 30, 2014.

**Long-Term Debt**

The table below presents a synopsis of the bonded debt of the City and its component units as of the date indicated. In addition, for tables setting forth a ten-year historical summary of tax-supported debt of the City and School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness as of June 30, 2013, see the Fiscal Year 2013 CAFR.

Of the total balance of City general obligation bonds issued and outstanding on June 30, 2014, approximately 22% is scheduled to mature within five fiscal years and approximately 46% is scheduled to mature within ten fiscal years. When PICA's outstanding bonds are included with the City general obligation bonds, approximately 57% is scheduled to mature within ten fiscal years.

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**Table 28**
**Bonded Debt -- City of Philadelphia and Component Units**
**as of June 30, 2014**
**(Amounts in Thousands)**

**(Unaudited)**

| | | |
|---|---|---|
| **General Obligation and PICA bonds** | | |
| General Obligation Bonds | | $ 1,439,550 |
| PA Intergovernmental Cooperation Authority | | 363,640 |
| Subtotal: General Obligation and PICA bonds | | $ 1,803,190 |
| **Other Long-Term Debt-Related Obligations**[1] | | |
| Philadelphia Municipal Authority | | |
| Municipal Services Building | $ 6,986 | |
| Criminal Justice Center | 85,050 | |
| Juvenile Justice Center | 93,700 | |
| Public Safety Campus | 65,155 | |
| Energy Conservation | 11,965 | $ 262,856 |
| Philadelphia Authority for Industrial Development | | |
| Pension Bonds | $1,421,250 | |
| Stadiums | 302,105 | |
| Library | 7,185 | |
| Cultural and Commercial Corridor | 112,050 | |
| One Parkway | 39,260 | |
| Philadelphia School District | 27,275 | $ 1,909,125 |
| Parking Authority | | $ 13,650 |
| Redevelopment Authority | | $ 212,465 |
| Subtotal | | $ 4,201,286 |
| **Revenue bonds** | | |
| Water Fund | | $ 1,851,445 |
| Aviation Fund | | $ 1,256,265 |
| Gas Works | | $ 1,058,920 |
| Subtotal: Revenue bonds | | $ 4,166,630 |
| **Grand total** | | $ 8,367,916 |

[1] The principal amount outstanding relating to the PAID 1999 Pension Obligation Bonds, Series B (capital appreciation bonds) and the PMA Municipal Services Building Rental Bonds, Series 1990C (capital appreciation bonds) are reflected as the accreted value thereon as of June 30, 2014.

Source: Office of Director of Finance

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**Table 29**
**City of Philadelphia**
**Annual Debt Service on General Fund-Supported Long-Term Debt[1]**
**As of June 30, 2014**
**(Amounts in Millions of USD)**

| Fiscal | General Obligation Bonds | | | Other Long-Term Obligations[2] | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Principal | Interest[3] | Total | Principal | Interest[3] | Total | Principal | Interest | Total |
| 2015 | 59.85 | 70.75 | 130.60 | 83.67 | 144.41 | 228.08 | 143.52 | 215.16 | 358.68 |
| 2016 | 59.18 | 68.37 | 127.54 | 89.78 | 141.96 | 231.74 | 148.95 | 210.33 | 359.28 |
| 2017 | 62.09 | 65.36 | 127.45 | 89.93 | 141.68 | 231.61 | 152.02 | 207.04 | 359.05 |
| 2018 | 65.10 | 62.14 | 127.24 | 96.71 | 140.95 | 237.66 | 161.80 | 203.09 | 364.89 |
| 2019 | 68.36 | 58.77 | 127.13 | 81.78 | 140.23 | 222.02 | 150.14 | 199.01 | 349.14 |
| 2020 | 70.33 | 55.32 | 125.65 | 65.47 | 140.01 | 205.49 | 135.80 | 195.34 | 331.14 |
| 2021 | 63.36 | 52.06 | 115.41 | 80.71 | 124.91 | 205.62 | 144.07 | 176.97 | 321.03 |
| 2022 | 66.19 | 48.88 | 115.06 | 78.54 | 127.15 | 205.69 | 144.73 | 176.03 | 320.76 |
| 2023 | 70.55 | 45.40 | 115.95 | 115.99 | 89.76 | 205.74 | 186.53 | 135.16 | 321.69 |
| 2024 | 74.10 | 41.68 | 115.77 | 116.03 | 89.78 | 205.81 | 190.12 | 131.46 | 321.59 |
| 2025 | 77.74 | 37.79 | 115.53 | 120.58 | 85.31 | 205.88 | 198.31 | 123.10 | 321.41 |
| 2026 | 74.09 | 33.96 | 108.05 | 136.29 | 68.83 | 205.12 | 210.38 | 102.79 | 313.17 |
| 2027 | 77.65 | 30.11 | 107.76 | 162.04 | 45.77 | 207.81 | 239.69 | 75.88 | 315.57 |
| 2028 | 81.96 | 26.20 | 108.15 | 167.32 | 36.46 | 203.78 | 249.28 | 62.66 | 311.94 |
| 2029 | 55.53 | 22.94 | 78.47 | 279.65 | 19.44 | 299.09 | 335.17 | 42.39 | 377.56 |
| 2030 | 71.45 | 19.87 | 91.31 | 55.95 | 9.60 | 65.55 | 127.39 | 29.47 | 156.86 |
| 2031 | 75.15 | 16.27 | 91.42 | 58.57 | 7.07 | 65.64 | 133.72 | 23.34 | 157.06 |
| 2032 | 79.02 | 12.47 | 91.49 | 16.03 | 4.89 | 20.92 | 95.05 | 17.37 | 112.42 |
| 2033 | 43.22 | 9.37 | 52.59 | 7.40 | 4.29 | 11.69 | 50.61 | 13.67 | 64.28 |
| 2034 | 30.41 | 7.40 | 37.80 | 7.81 | 3.88 | 11.69 | 38.22 | 11.28 | 49.49 |
| 2035 | 15.55 | 6.15 | 21.69 | 8.26 | 3.43 | 11.69 | 23.80 | 9.58 | 33.38 |
| 2036 | 16.42 | 5.27 | 21.69 | 8.73 | 2.96 | 11.69 | 25.15 | 8.23 | 33.38 |
| 2037 | 17.33 | 4.36 | 21.69 | 9.23 | 2.46 | 11.69 | 26.56 | 6.82 | 33.38 |
| 2038 | 18.31 | 3.38 | 21.69 | 9.76 | 1.93 | 11.69 | 28.07 | 5.31 | 33.37 |
| 2039 | 19.37 | 2.32 | 21.69 | 10.33 | 1.37 | 11.69 | 29.70 | 3.69 | 33.38 |
| 2040 | 8.52 | 1.50 | 10.02 | 3.31 | 0.77 | 4.08 | 11.83 | 2.26 | 14.09 |
| 2041 | 9.10 | 0.93 | 10.02 | 3.45 | 0.62 | 4.07 | 12.55 | 1.55 | 14.10 |
| 2042 | 9.71 | 0.32 | 10.02 | 3.60 | 0.48 | 4.07 | 13.30 | 0.79 | 14.09 |
| 2043 | 0.00 | 0.00 | 0.00 | 3.75 | 0.33 | 4.08 | 3.75 | 0.33 | 4.08 |
| 2044 | 0.00 | 0.00 | 0.00 | 3.91 | 0.17 | 4.08 | 3.91 | 0.17 | 4.08 |
| TOTAL | 1,439.55 | 809.35 | 2,248.90 | 1,974.53 | 1,580.90 | 3,555.43 | 3,414.08 | 2,390.24 | 5,804.32 |

[1] Does not include PICA bonds.
[2] Includes PAID, PMA, Parking Authority, and Redevelopment Authority bonds.
[3] Assumes interest rate to be fixed swap rate on hedged variable rate bonds plus any fixed spread.

### Other Long-Term Debt Related Obligations

The City has entered into other contracts and leases to support the issuance of debt by public authorities related to the City pursuant to which the City is required to budget and appropriate tax or other general revenues to satisfy such obligations, as shown on Table 28. The City budgets all other long-term debt-related obligations as a single budget item with the exception of the Parking Authority which has a budget of $1,336,200 for Fiscal Year 2014.

The Hospitals Authority and the State Public School Building Authority have issued bonds on behalf of the Community College of Philadelphia ("CCP"). Under the Community College Act, each community college must have a local sponsor, which for CCP is the City. As the local sponsor, the City is obligated to pay up to 50% of the annual capital expenses of CCP, which includes debt service. The remaining 50% is paid by the Commonwealth.

Additionally, the City annually appropriates funds for a portion of CCP's operating costs (less tuition and less the Commonwealth's payment). The total payment to CCP in Fiscal Year 2008 was $24,467,924. The amount paid in Fiscal Year 2009 and Fiscal Year 2010 was $26,467,924 each year. The amount paid in Fiscal Year 2011, Fiscal Year 2012 and Fiscal Year 2013 was $25,409,207. The amount paid in Fiscal Year 2014 is $26,409,207. The budget amount for Fiscal Year 2015 is $26,909,207. This amount represents the portion of operating costs (less student tuition and the Commonwealth payment) and up to half of the annual capital expenses for the year.

**PICA Bonds**

PICA has previously issued 11 series of bonds. Under the PICA Act, PICA no longer has the authority to issue bonds for new money purposes, but may refund bonds previously issued. Two series remain outstanding: (i) Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2009 issued in the original aggregate principal amount of $354,925,000, having a final stated maturity date of June 15, 2023 and (ii) Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2010 in the original principal amount of $206,960,000, having a final stated maturity date of June 15, 2022. As of the close of business on June 30, 2014, the principal amount of PICA bonds outstanding was $363,640,000.

The proceeds of the previous series of bonds issued by PICA were used (a) to make grants to the City to fund its General Fund deficits, to fund the costs of certain City capital projects, to provide other financial assistance to the City to enhance operational productivity, and to defease certain City general obligation bonds, (b) to refund other PICA bonds and (c) to pay costs of issuance.

The PICA Act authorizes the City to impose a tax for the sole and exclusive purposes of PICA. In connection with the adoption of the Fiscal Year 1992 budget and the adoption of the first Five-Year Plan, the City reduced the wage, earnings, and net profits taxes on City residents by 1.5% and enacted a new tax of 1.5% on wages, earnings and net profits of City residents (the "PICA Tax") for the benefit of PICA. Proceeds of the PICA Tax are solely the property of PICA. The PICA Tax, collected by the City's Department of Revenue, as agent of the State Treasurer, is deposited in the Pennsylvania Intergovernmental Cooperation Authority Tax Fund (the "PICA Tax Fund") of which the State Treasurer is custodian. The PICA Tax Fund is not subject to appropriation by City Council or the General Assembly of the Commonwealth.

The PICA Act authorizes PICA to pledge the PICA Tax to secure its bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing its rate while any PICA bonds are outstanding. PICA bonds are payable from PICA revenues, including the PICA Tax, pledged to secure PICA's bonds, the Bond Payment Account (as described below) and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

The PICA Act requires that proceeds of the PICA Tax in excess of amounts required for (i) debt service, (ii) replenishment of any debt service reserve fund for bonds issued by PICA, and (iii) certain PICA operating expenses, be deposited in a trust fund established exclusively to benefit the City and designated the "City Account." Amounts in the City Account are required to be remitted to the City not less often than monthly, unless PICA certifies the City's non-compliance with the then-current five-year financial plan.

The PICA Act establishes a "Bond Payment Account" for PICA as a trust fund for the benefit of PICA bondholders and authorizes the creation of a debt service reserve fund for bonds issued by PICA. Since PICA has issued bonds secured by the PICA Tax, the PICA Act requires that the State Treasurer pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account.

The total amount of PICA Tax remitted to PICA by the State Treasurer (which is net of the costs of the State Treasurer in collecting the PICA Tax) for each of the Fiscal Years 2003 through 2013 and the Adopted Fiscal Year 2014 Budget and current estimate for Fiscal Year 2014 and the Adopted Fiscal Year 2015 Budget are set forth below.

**Table 30**
**Summary of PICA Tax Remitted by the State Treasurer to PICA and Net Taxes Remitted by PICA to the City (Amounts in Millions of USD)**

| Year | PICA Tax | PICA Annual Debt Service and Investment Expenses | Net taxes remitted to the City[1] |
|---|---|---|---|
| 2003 | 281.5 | 79.2 | 202.3 |
| 2004 | 285.0 | 78.9 | 206.1 |
| 2005 | 300.2 | 85.9 | 214.3 |
| 2006 | 309.9 | 87.1 | 222.8 |
| 2007 | 327.9 | 86.0 | 241.9 |
| 2008 | 341.8 | 86.4 | 255.4 |
| 2009 | 348.5 | 86.4 | 262.1 |
| 2010 | 343.3 | 68.9 | 274.4 |
| 2011 | 358.7 | 64.9 | 293.8 |
| 2012 | 357.5 | 62.3 | 295.2 |
| 2013 | 376.5 | 62.6 | 313.9 |
| 2014 (Adopted Budget)[1] | 391.0 | 65.9 | 325.1 |
| 2014 (Current Estimate)[2] | 389.3 | 65.9 | 323.4 |
| 2015 (Adopted Budget)[3] | 403.7 | 65.7 | 338.0 |

(1) Does not include additional one-time grants to the City from PICA reserves in certain years.
(2) From the estimates for the Adopted Fiscal Year 2014 Budget.
(3) From the Adopted Fiscal Year 2015 Budget.

## OTHER FINANCING RELATED MATTERS

### Swap Information

The City has entered into various swaps related to its outstanding General Fund-supported bonds as detailed in the following table:

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**Table 31**
**Summary of Swap Information**
**for General Fund-Supported Bonds**
**as of June 30, 2014**

| City Entity | City GO | City Lease PAID | City Lease PAID | City Lease PAID | City Lease PAID | City Lease PAID |
|---|---|---|---|---|---|---|
| Related Bond Series | 2009B[1] | 2001 (Stadium) | 2007B (Stadium)[3] | 2014A (Stadium)[3] | 2007B (Stadium)[3] | 2014A (Stadium)[3] |
| Initial Notional Amount | $313,505,000 | $298,485,000 | $217,275,000 | $87,961,255 | $72,400,000 | $29,313,745 |
| Current Notional Amount | $100,000,000 | $193,520,000 | $129,313,745 | $87,961,255 | $43,086,255 | $29,313,745 |
| Termination Date | 8/1/2031 | 10/1/2030 | 10/1/2030 | 10/1/2030 | 10/1/2030 | 10/1/2030 |
| Product | Fixed Payer Swap | Basis Swap[2] | Fixed Payer Swap | Fixed Payer Swap | Fixed Payer Swap | Fixed Payer Swap |
| Rate Paid by Dealer | SIFMA | 67% 1-month LIBOR + 0.20% plus fixed annuity | SIFMA | 70% 1-month LIBOR | SIFMA | 70% 1-month LIBOR |
| Rate Paid by City Entity | 3.829% | SIFMA | 3.9713% | 3.62% | 3.9713% | 3.632% |
| Dealer | Royal Bank of Canada | Merrill Lynch Capital Services, Inc. | JPMorgan Chase Bank, N.A. | JPMorgan Chase Bank, N.A. | Merrill Lynch Capital Services, Inc. | Merrill Lynch Capital Services, Inc. |
| Fair Value[4] | ($16,947,677) | ($6,388,319) | ($19,821,730) | ($15,396,495) | ($6,606,155) | ($5,165,650) |

(1) On July 28, 2009, the City terminated a portion of the swap in the amount of $213,505,000 in conjunction with the refunding of its Series 2007B bonds with the Series 2009A fixed rate bonds and the Series 2009B variable rate bonds. The City made a termination payment of $15,450,000.

(2) PAID received annual fixed payments of $1,216,500 from July 1, 2004 through July 1, 2013. As the result of an amendment on July 14, 2006, $104,965,000 of the total notional amount was restructured as a constant maturity swap (the rate received by PAID on that portion was converted from a percentage of 1-month LIBOR to a percentage of the 5-year LIBOR swap rate from October 1, 2006 to October 1, 2020). The constant maturity swap was terminated in December 2009. The City received a termination payment of $3,049,000.

(3) On May 13, 2014, PAID converted a portion of the 2007B SIFMA Swap to a LIBOR-based swap in conjunction with the refunding of its Series 2007B-1 bonds with the Series 2014A bonds. Under the conversion, PAID pays a fixed rate of 3.62% and 3.632% to JPMorgan and Merrill Lynch, respectively, and receives a floating rate of 70% of 1-month LIBOR.

(4) Fair values are as of June 30, 2014, and are shown from the City's perspective and include accrued interest.

While the City is party to several interest rate swap agreement, for which there is General Fund exposure and on which the swaps currently have a negative mark against the City, the City has no obligation to post collateral on these swaps while the City's underlying ratings are investment grade.

For more information related to certain swaps entered into in connection with revenue bonds issued for PGW, Water and the Airport, see the Fiscal Year 2013 CAFR. In addition, PICA has entered into swaps which are detailed in the Fiscal Year 2013 CAFR.

### Letter of Credit Agreements

The City has entered into various letter of credit agreements related to its General Fund-supported bonds as detailed in the table below. Under the terms of such letter of credit agreements, following a purchase of the

applicable bonds, the City may be required to amortize such bonds more quickly than as originally scheduled at issuance.

**Table 32**
**Summary of Letter of Credit Agreements**
**for General Fund-Supported Bonds**
**as of June 30, 2014**

| Variable Rate Bond Series | Amount Outstanding | Provider | Expiration Date |
|---|---|---|---|
| General Obligation Bonds, Series 2009B | $ 100,000,000 | Bank of New York Mellon | 03/07/2016 |
| PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B-2 | 72,400,000 | TD Bank | 05/29/2019 |
| PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B-3 | 44,605,000 | PNC Bank | 05/23/2017 |

**Recent and Upcoming Financings**

In the second quarter of 2014, the City anticipates issuing, together with PGW, commercial paper notes or bonds in the estimated amount of $120 million.

In the fourth quarter of 2014, the City, together with the Philadelphia Airport, may issue Revenue Bonds for an amount to be determined.

An ordinance has been introduced in City Council that, if enacted, would authorize the issuance of up to $30,000,000 of additional bonds for the benefit of the School District which may be repaid from Sales Tax receipts in Fiscal Years 2015 through 2018. No assurance is or can be given that such ordinance will be enacted or, if enacted, such additional bonds will be issued.

In the first quarter of 2015, the City, together with the Philadelphia Water Department, may issue Revenue Bonds for an amount to be determined.

From time to time, the City considers additional new money and/or refunding financings as market opportunities arise.

The following is a list of financings that the City has entered into since the close of Fiscal Year 2013:

In June, 2014, the City, through PAID, issued $27,275,000 of City Service Agreement Revenue Bonds, Series 2014A for the benefit of the School District which are expected to be repaid from Sales Tax receipts in Fiscal Year 2015 through Fiscal Year 2018. See "REVENUES OF THE CITY-Sales and Use Tax."

In the second quarter of 2014, PAID, refunded the Series 2007B-1 Bonds with direct purchase floating rate notes, indexed to a percentage of 1-month LIBOR, and concurrently re-indexed associated portions of the related swaps to the same LIBOR index.

In April 2014, the City, through the Philadelphia Municipal Authority, issued its City Service Agreement Revenue Bonds, Series 2014A (Federally Taxable) and Series 2014B in the aggregate principal amount of $65,155,000.

In February 2014, the City issued General Obligation Refunding Bonds, Series 2014A in the amount of $154.275 million.

In January 2014, the City, together with the Philadelphia Water and Wastewater Department, issued Water and Wastewater Revenue Bonds in the amount of $123.170 million.

In December 2013, the City issued Tax and Revenue Anticipation Notes in the amount of $100 million which matured and were paid on June 30, 2014.

In October 2013, the City, through the Philadelphia Municipal Authority, issued its City Agreement Revenue Refunding Bonds, 2013 Series A, in the amount of $85.05 million.

In August 2013, the City, together with the Philadelphia Water Department, issued Water and Wastewater Revenue Bonds, Series 2013A in the amount of $170 million.

In August 2013, the City issued its $208.360 million General Obligation Bonds, Series 2013A.

## CITY CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program for Fiscal Years 2014-2019 contemplates a total budget of $10,006,625,000, of which $2,338,132,000 is to be provided from Federal, Commonwealth, and other sources and the remainder through City funding. The following table shows the amounts budgeted each year from various sources of funds for capital projects. City Council adopted the Capital Improvement Program for Fiscal Years 2014-2019 on June 20, 2013.

**Table 33**
**Fiscal Years 2014-2019**
**Capital Program**
**(Amounts in Thousands of USD)**

| City Funds – Tax Supported | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2014-2019 |
|---|---|---|---|---|---|---|---|
| Carried-forward Loans | 303,897 | 0 | 0 | 0 | 0 | 0 | 303,897 |
| Operating Revenue | 29,855 | 3,464 | 2,964 | 1,764 | 1,764 | 1,764 | 41,575 |
| New Loans | 91,097 | 90,367 | 95,720 | 95,037 | 94,978 | 111,024 | 578,223 |
| Pre-financed Loans | 16,346 | 0 | 0 | 0 | 0 | 0 | 16,346 |
| PICA Pre-financed Loans | 12,858 | 0 | 0 | 0 | 0 | 0 | 12,858 |
| Tax-supported Subtotal | 454,053 | 93,831 | 98,684 | 96,801 | 96,742 | 112,788 | 952,899 |
| | | | | | | | |
| City Funds – Self-Sustaining | | | | | | | |
| Carried-forward Loans | 1,138,430 | 0 | 0 | 0 | 0 | 0 | 1,138,430 |
| Operating | 163,289 | 59,017 | 69,163 | 74,066 | 76,227 | 78,639 | 520,401 |
| New Loans | 765,680 | 756,431 | 692,412 | 1,036,669 | 897,243 | 840,328 | 4,988,763 |
| Self-Sustaining Subtotal | 2,067,399 | 815,448 | 761,575 | 1,110,735 | 973,470 | 918,967 | 6,647,594 |
| | | | | | | | |
| Revolving Funds | 18,000 | 0 | 0 | 0 | 0 | 0 | 18,000 |
| | | | | | | | |
| Other Than City Funds | | | | | | | |
| Carried-Forward Other Government | 19,485 | 0 | 0 | 0 | 0 | 0 | 19,485 |
| Other Governments Off Budget | 634 | 724 | 949 | 934 | 1,050 | 1,217 | 5,508 |
| Other Governments/Agencies | 60 | 0 | 0 | 0 | 0 | 0 | 60 |
| Carried-Forward State | 93,978 | 0 | 0 | 0 | 0 | 0 | 93,978 |
| State Off Budget | 74,904 | 90,059 | 135,981 | 136,936 | 140,022 | 148,083 | 725,985 |
| State | 29,973 | 23,138 | 20,375 | 20,125 | 21,925 | 15,300 | 130,836 |
| Carried-Forward Private | 141,896 | 0 | 0 | 0 | 0 | 0 | 141,896 |
| Private | 61,670 | 34,470 | 32,120 | 28,370 | 33,370 | 20,370 | 210,370 |
| Carried-Forward Federal | 265,307 | 0 | 0 | 0 | 0 | 0 | 265,307 |
| Federal Off Budget | 77,140 | 63,838 | 57,251 | 41,998 | 41,943 | 17,998 | 300,168 |
| Federal | 128,614 | 74,550 | 87,550 | 81,750 | 66,975 | 55,100 | 494,539 |
| | | | | | | | |
| Other Than City Funds Subtotal | 893,661 | 286,779 | 334,226 | 310,113 | 305,285 | 258,068 | 2,338,132 |
| TOTAL | $3,433,113 | $1,196,058 | $1,194,485 | $1,517,649 | $1,375,497 | $1,289,823 | $10,006,625 |

## LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Division of Aviation, and the Gas Works. Claims against the Water Department are paid first from the Water Fund and only secondarily from the General Fund. Claims against the Division of Aviation, to the extent not covered by insurance, are paid first from the Aviation Fund and only secondarily from the General Fund. Claims against the Gas Works, to the extent not covered by insurance, are paid first from Gas Works revenues and only secondarily from the General Fund.

The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act," (the "Tort Claims Act") establishes a $500,000 aggregate limitation on damages for injury to a person or property arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation on damages has been previously upheld by the Pennsylvania appellate courts, including in past decisions of the Pennsylvania Supreme Court. In January 2014, however, the Pennsylvania Supreme Court granted review of a case in which the injured party challenges the $500,000 limitation that caps the damages that can be recovered from a political subdivision in a tort case. Briefs have been filed, and argument was held on May 6, 2014. A decision is not expected for some months. The City, the City of Pittsburgh, Allegheny County, the Attorney General of the Commonwealth, and numerous other governmental entities have filed amicus briefs arguing that the statutory damages cap of the Tort Claims Act should be upheld. Under Pennsylvania Rule of Civil Procedure 238, delay damages are not subject to the $500,000 limitation. The limit on damages is inapplicable to any suit against the City which does not arise under state tort law such as claims made against the City under Federal civil rights laws.

The aggregate loss resulting from general and special litigation claims was $24.5 million for Fiscal Year 2004, $27.5 million for Fiscal Year 2005, $23.0 million for Fiscal Year 2006, $26.6 million for Fiscal Year 2007, $29.8 million for Fiscal Year 2008, $34.5 million for Fiscal Year 2009, $32.7 million for Fiscal Year 2010, $33.6 million for Fiscal Year 2011, $32.6 million for Fiscal Year 2012, and $30.3 million for Fiscal Year 2013. Estimates of settlements and judgments from the General Fund are $41.0 million for Fiscal Year 2014 (based on the Operating Budget for Fiscal Year 2014 and expenditures to date, the actual amount for Fiscal Year 2014 may increase by an amount that cannot yet be determined), and $33.66 million for each of the Fiscal Years 2015 through 2019, respectively (based on the Twenty-Second Five-Year Plan). In budgeting for settlements and judgments in the annual Operating Budget and projecting settlements and judgments for each Five-Year Plan, the City bases its estimates on past experience and on an analysis of estimated potential liabilities and the timing of outcomes, to the extent a proceeding is sufficiently advanced to permit a projection of the timing of a result. General and special litigation claims are budgeted separately from back-pay awards and similar settlements relating to labor disputes. Usually, some of the costs arising from labor litigation are reported as part of current payroll expenses. For Fiscal Year 2012, payments for claims arising from labor settlements in the General Fund were $1.25 million and were paid from the Indemnities account. For Fiscal Year 2013, payments for claims arising from labor settlements in the General Fund were $369,697 of which $359,280 was paid from the Indemnities account, and $10,417 from the operating budgets of the affected departments. Actual claims paid out from the General Fund for settlements and judgments averaged $32.76 million per year over the five years from Fiscal Year 2009 through Fiscal Year 2013.

In addition to routine litigation incidental to performance of the City's governmental functions and litigation arising in the ordinary course relating to contract and tort claims and alleged violations of law, certain special litigation matters are currently being litigated and/or appealed and adverse final outcomes of such litigation could have a substantial or long-term adverse effect on the City's General Fund. These proceedings involve: environmental-related actions and proceedings in which it has been or may be alleged that the City is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property; contract disputes and other commercial litigation; and union arbitrations and other employment-related litigation. The ultimate outcome and fiscal impact, if any, on the City's General Fund of the claims and proceedings described in this paragraph are not currently predictable.

Various claims in addition to the lawsuits described in the preceding paragraph have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these Water Department claims

have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. The aggregate loss for Fiscal Year 2010 which resulted from these claims and lawsuits was $4.0 million, $5.4 million in Fiscal Year 2011, $2.1 million in Fiscal Year 2012, and $1.3 million in Fiscal Year 2013. The Water Fund's budget for Fiscal Year 2014 contains an appropriation for Water Department claims in the amount of $6.5 million, although the current estimate, based on the prior four fiscal years' expenditures, is for $5.94 million in Fiscal Year 2014. The Water Fund is the first source of payment for any of the claims against the Water Department.

In addition, various claims have been asserted against the Division of Aviation and in some cases lawsuits have been instituted. Many of these Division of Aviation claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Division of Aviation. The aggregate loss for Fiscal Year 2010 which resulted from these claims and lawsuits was $1.2 million, $1.7 million for Fiscal Year 2011, $1.2 million in Fiscal Year 2012, and $1.1 million in Fiscal Year 2013. The Indemnities budget for Aviation Fund claims for Fiscal Year 2014 contains an appropriation in the amount of $2.5 million, although the current estimate, based on the prior four fiscal years' expenditures, is $661,966 in Fiscal Year 2014. The Division of Aviation is the first source of payment for any of the claims against the Division of Aviation.

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# APPENDIX B

# CITY SOCIOECONOMIC INFORMATION

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## APPENDIX B

## CITY SOCIOECONOMIC INFORMATION

## INTRODUCTION

The City of Philadelphia (the "City" or "Philadelphia") is the fifth-largest city in the nation, with the second largest residential downtown, and is at the center of the United States' sixth largest metropolitan statistical area. The Philadelphia MSA (further described below) includes the fifth largest retail sales market in the nation, as well as a diverse network of business suppliers and complementary industries. The Philadelphia MSA plus Mercer County, New Jersey, has the second largest concentration of students on the East Coast in a metropolitan statistical area with 101 degree granting institutions of higher education and a total enrollment of 300,000 students of whom approximately 153,000 live within the geographic boundaries of the City. Some of the City's top priorities include attracting and retaining knowledge workers, increasing educational attainment among Philadelphians, attracting development, and promoting Philadelphia as a desirable location for business.

According to the 2010 U.S. Census, the City increased its population by 0.6% in the ten years since 2000 to 1.526 million residents, ending six decades of population decline. Although the change was modest, it was an indicator of the growth and development that Philadelphia has witnessed throughout the last two decades. From 2010 to 2013, the City increased its population by 1.8% to 1.553 million residents, which exceeds the rate of population growth projected by the Philadelphia City Planning Commission in its 2011 comprehensive plan. The City is positioned for continued growth, given its diverse economy.

Since 2008, substantial private and public investment aggregating over $8.8 billion (based on building permit information) has led to a revitalization of the City. Philadelphia continues to capitalize on its assets to realize its economic priorities. The City benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries. The City is a major business and personal services center with strengths in professional services like insurance, law, finance, healthcare and higher education, and leisure and hospitality. Philadelphia's cost of living is relatively moderate compared to other major metropolitan areas. In addition, the City, as one of the country's education centers, offers the business community a large and diverse labor pool.

### Geography

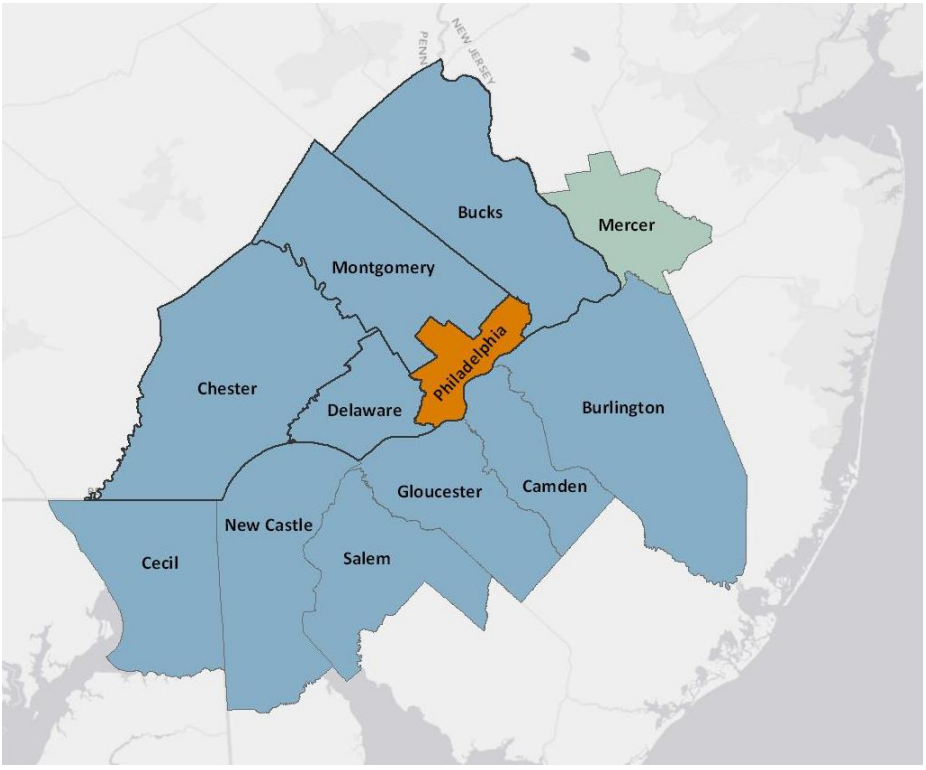
The City includes within its boundaries an area of approximately 134 square miles along the southeastern border of the Commonwealth of Pennsylvania (the "Commonwealth") and is located at the confluence of the Delaware and Schuylkill Rivers. The City, highlighted in orange in Figure 1, lies at the geographical and economic center of the MSA and PMSA (described below). Philadelphia is the largest city in the Commonwealth, co-terminous with the County of Philadelphia.

**Philadelphia Metropolitan Statistical Area (MSA)**, highlighted in blue, is the eleven-county area named the Philadelphia-Camden-Wilmington metropolitan statistical area, representing an area of approximately 5,118 square miles with approximately 6,034,678 residents.[1]

**Philadelphia Primary Metropolitan Statistical Area (PMSA)**, outlined in grey, is a 5-county area that is within the Philadelphia MSA that lies in the Commonwealth. Sometimes called the Philadelphia Metropolitan Division, in this discussion it is referred to as the Philadelphia Primary Statistical Area (PMSA). The counties of Bucks, Chester, Delaware, and Montgomery are referred to as the Suburban PMSA herein.

[1] Due to its close proximity and impact on the region's economy, Mercer County, NJ, highlighted in green, is included in the MSA by many regional agencies, although it is not included in the area defined by the U.S. Office of Management and Budget.

**Figure 1. Map of Philadelphia Region, including the MSA, PMSA, and Mercer County, NJ**
Source: 2009 TIGER County Shapefiles




**Strategic Location**

An hour from New York City and less than two hours from Washington, D.C. by high-speed rail, Philadelphia is centrally located along the East Coast. The City is within a day's drive of 50% of the nation's population and accessible to regional and international markets, due to the transportation infrastructure centered in the City, including the Philadelphia International Airport ("PHL" or the "Airport"), AMTRAK's Northeast Corridor service, major interstate highway access, regional SEPTA service and the Port of Philadelphia.

**City Identified Peer Group**

Certain information about the City in this Appendix is presented in comparison to certain other cities determined by the City. The City has chosen its comparison cities based on a variety of factors, with some cities falling into multiple categories, including comparable population size, similar industrial history, similar assets such as a port or a redeveloped military base, comparable geography along the Northeast corridor and similar socio-economic statistics. Comparison cities are: Baltimore, Boston, Chicago, Cleveland, Detroit, Houston, Los Angeles, Memphis, Milwaukee, Phoenix, San Antonio, San Diego and Washington, DC.

## POPULATION AND DEMOGRAPHICS

Philadelphia is the nation's fifth largest city, with 1.553 million residents, based on 2012 U.S. Census estimates. The City's population gain from 2000 to 2010, while modest, was its first in 60 years. In the two years following the 2010 Census, the City's population grew by an additional 1.8 %, adding an additional 27,159 residents according to 2012 Census estimates.

From 2006 to 2012, the share of the population represented by citizens age 20 to 34 grew from 20% to 26%, to become the largest share of Philadelphia's population. This demographic tends to be better educated than the City's adult population as a whole, with 37.5% of 25 to 34-year olds having a bachelor degree or higher while 23.6% of adult Philadelphians were college graduates as of 2011. Nationally 31.5% of 20 to 34-year olds had a bachelor degree or higher in 2011. The City's many universities and diverse employment bases are likely draws for residents in the 20 to 34 age group. In addition to young people, as noted in Pew Charitable Trusts Philadelphia Research Initiative 2011 report, *A City Transformed: the Racial and Ethnic Changes in Philadelphia Over the Last*

*20 Years*, the City's immigrant population also grew significantly, with the City's Asian population increasing 126.6% and the Hispanic or Latino population growing by 110.3% from 1990 to 2010.

**Table 1**
**Population**
**City, MSA, Pennsylvania & Nation**

| | 1990 | 2000 | 2010 | 2013 | % Change 2000-2010 | % Change 2010-2012 |
|---|---|---|---|---|---|---|
| **Philadelphia** | **1,585,577** | **1,517,550** | **1,526,006** | **1,553,165** | **0.60%** | **1.77%** |
| Philadelphia-Camden-Wilmington MSA | 5,437,468 | 5,687,147 | 5,965,343 | 6,034,678 | 4.89% | 1.16% |
| Pennsylvania | 11,881,643 | 12,281,054 | 12,702,379 | 12,773,801 | 3.40% | 0.56% |
| United States | 248,709,873 | 281,421,906 | 308,745,538 | 316,128,839 | 9.70% | 2.39% |

Source: U.S. Census Bureau, American Community Survey 2013, Census 2010, Census 2000, Census 1990.

In 2012, Philadelphia exceeded most cities in its share of students who are enrolled in an undergraduate, graduate or professional education program. Four of the top six peer cities that have the largest share of students in higher education were located in the Northeast region. However, because of the population differences of these cities, Philadelphia had 38,453 more students in higher education than top ranked Boston. Philadelphia had the sixth highest share of its residents in higher education of the selected cities shown in Table 2 below and the fourth largest university student population.

**Table 2**
**2012 Total Number of Students, and as a Percent of Total Population of Selected Cities, Ranked by Percent of Total Population enrolled in Higher Education**

| City | Total Number of Students Enrolled in School (all years) | Total Number of Students Enrolled in Higher Education | Percent of All Students Enrolled in Higher Education | Percent of Total Population enrolled in Higher Education |
|---|---|---|---|---|
| Boston, MA | 198,917 | 114,025 | 57.32% | 18.15% |
| Washington, DC | 159,181 | 74,618 | 46.88% | 12.06% |
| San Diego, CA | 376,585 | 152,416 | 40.47% | 11.53% |
| Baltimore, MD | 165,703 | 63,070 | 38.06% | 10.16% |
| Milwaukee, WI | 189,317 | 60,609 | 32.01% | 10.15% |
| **Philadelphia, PA** | **423,644** | **152,478** | **35.99%** | **9.91%** |
| Los Angeles, CA | 1,042,248 | 347,495 | 33.34% | 9.08% |
| Chicago, IL | 720,798 | 235,032 | 32.61% | 8.69% |
| Memphis, TN | 180,158 | 54,216 | 30.09% | 8.32% |
| San Antonio, TX | 395,313 | 111,320 | 28.16% | 8.20% |
| Detroit, MI | 203,863 | 54,598 | 26.78% | 7.73% |
| Cleveland, OH | 105,503 | 29,728 | 28.18% | 7.56% |
| Houston, TX | 574,449 | 153,929 | 26.80% | 7.23% |
| Phoenix, AZ | 408,955 | 101,234 | 24.75% | 6.90% |
| **United States** | **82,921,961** | **23,770,304** | **28.67%** | **7.63%** |

Source: 2012 American Community Survey, 3-Year Estimates

## ECONOMIC DEVELOPMENT

### Mission and Goals of the City of Philadelphia Economic Development Strategy

The goal of the City's economic development strategy is to create, maintain, and develop: (1) jobs by fostering an improved business environment; (2) increases in population; and (3) enhanced quality of life within the City—all in order to grow the City's tax base and market competitiveness. Strategic public and private investments, as well as location-based assets, have created a stable economic base and positioned Philadelphia for growth. This economic development infrastructure strives to make Philadelphia a place of choice by increasing jobs and population in the City.

**Notable Districts**

Several key areas within the City have been instrumental in the economic development of Philadelphia over the past two decades and the population growth since 2000. Much of the real estate development referenced throughout this document has occurred in these districts.

*Center City* - An area that has seen a resurgence over the last two decades, Center City is Philadelphia's central business and office region within the City. Center City is the strongest employment area in the city, accounting for 36% of all jobs found in Philadelphia in 2011. In addition, the area contains a sizeable residential population and provides ample access to retail, dining, arts and culture, entertainment, and mass transportation services, to both residents and daily commuters. According to Center City District, 305,238 riders took public transportation into Center City daily in 2013. The professional services and leisure and hospitality sectors play significant roles in the Center City area.

*Greater Center City* - The areas of greater Center City result from a growing desire for urban living among people who find these areas more affordable than Center City. Like Center City, these areas have experienced increased population, educational attainment, and family income within the last decade. Greater Center City accounted for 43% of all jobs found in Philadelphia in 2011.

*University City* – Located west of Center City, University City is a hub for the health care, life sciences, and higher education sectors and accounted for 11% of the City's employment in 2011. It includes the campuses of the University of Pennsylvania, Drexel University, University of the Sciences, the University of Pennsylvania Health System, the Children's Hospital of Philadelphia and the Wistar Institute, as well as the University City Science Center, a biomedical incubator.

*The Navy Yard* - Deeded to the City by the U.S. Navy in 2000 as a result of the federal Base Realignment and Closure Act, the 1,000-acre Philadelphia Navy Yard represents a successful transition of a former naval property with a 125-year history as an active military base to a growing hub for business. Largely through the work of the Philadelphia Industrial Development Corporation ("PIDC"), the City invests in infrastructure at the Navy Yard, providing an urban alternative to suburban office parks and a base for the rejuvenation of the industrial sector. The Navy Yard surpassed 11,000 employees in January 2014, making the Navy Yard a growing employment area with 1% of the City's jobs.

**Economic Development Infrastructure**

The Deputy Mayor for Economic Development and Commerce Director manages a portfolio of City and quasi-public agencies that work together to advance economic development strategies within the City. These agencies serve a variety of functions, including economic development, land use and planning, housing development and historical preservation and regulatory oversight, each discussed below. Furthermore, the City provides additional programs to businesses and individuals as incentive to relocate and/or develop within the City. These programs include tax incentives such as the City's real estate tax abatement program and access to designated Keystone Opportunity Zones. Finally, the City has found the private sector to be a valuable partner in advancing the overall economic development initiatives within the City, including but not limited to investment in Center City, the Parkway District, the Avenue of the Arts District and the Navy Yard.

**Economic Development**

The Philadelphia Department of Commerce oversees and implements policies to help both small businesses and major corporations in Philadelphia thrive. The Department coordinates activities along neighborhood commercial corridors, with small businesses and entrepreneurs, major real estate development projects, large-scale business attraction and retention efforts, as well as efforts to increase minority-owned business contracting opportunities. The City works closely with economic development partners like PIDC, maintaining a relationship that is fully coordinated on business attraction and retention activities and development issues. At the direction of the Department of Commerce, PIDC plans and implements real estate and financing transactions that attract investment, jobs and tax ratables to the City.

**Land Use and Planning**

The Philadelphia City Planning Commission is responsible for the City's land use and strategic planning policies. The Commission maintains the City's comprehensive plan and monitors land use by applying the zoning

code to proposed development. After four years of work, a revised zoning code was adopted by City Council in December 2011 and went into effect August 2012. The new, streamlined code is designed to increase efficiency in the development process by expanding what is allowable by right; thus, limiting the number of variance requests. When variances are needed, the Zoning Board of Adjustment is the appointed arbiter of those land use requests.

**Housing Development**

The Office of Housing and Community Development (OHCD) manages planning, policy and investment in low income housing through several assistance programs. Most significantly, OHCD creates and manages implementation of the Consolidated Plan, a federally-mandated plan and budget that must be updated yearly in order to receive federal Community Development Block Grant funding. The Philadelphia Redevelopment Authority (PRA) is the public government agency charged with the redevelopment of the City. The PRA focuses on planning and developing balanced, mixed-use communities to create thriving, well-served neighborhoods. The PRA manages disposition of City-owned land. Philadelphia Housing Development Corporation (PHDC) focuses on service to Philadelphia's low- and moderate-income households through development of new housing and rehabilitation of existing homes in partnership with community development corporations. The Philadelphia Housing Authority (PHA) is funded primarily by the federal government and is the largest landlord in Pennsylvania. PHA develops, acquires, leases and operates affordable housing for City residents with limited incomes. PHA works in partnership with the City and state governments, as well as private investors.

**Historical Preservation and Regulatory Oversight**

The City is home to historic resources documenting more than three centuries of local, regional, and national history. The Philadelphia Historical Commission is the City's regulatory agency responsible for ensuring the preservation of that collection of historic resources including buildings, structures, sites, objects, interiors, and districts. The Philadelphia Art Commission is the City's charter-mandated design review board for architecture and public art. The City of Philadelphia has one of the largest collections of public art of any major city in the world, with more than 4,500 cataloged pieces.

The Department of Licenses & Inspections reviews construction plans and conducts building inspections to ensure the safety of workers and the public. Building permits are required before beginning projects to enlarge, repair, change, add to or demolish a structure, and to install equipment or systems in a structure. The Department also issues licenses, permits and certificates to conduct certain business operations.

**Lending, Land Use and Employer-Based Strategies to Expand Business and Investment**

As the City's landholding and financing arm, the Philadelphia Industrial Development Corporation (PIDC) manages public and private resources that are used to leverage even greater investments from a diverse range of governmental, for-profit and non-profit clients throughout Philadelphia. Since its founding in 1958, PIDC has placed more than $10 billion of PIDC financing and conveyed more than 3,000 acres of land in commercial and industrial projects. These transactions have leveraged $19 billion in total project investment and attracted or retained more than 400,000 jobs.

Through PIDC, the City offers a broad range of financing incentives, including below-market loans, grants, and tax-exempt financing designed to encourage economic growth in Philadelphia. Generally, financing is targeted to capital projects (building acquisition and renovation, new construction, machinery and equipment) that retain or grow employment in Philadelphia where the borrower is not otherwise able to fully fund the project with private-sector debt and equity. PIDC also offers financial assistance for working capital associated with business growth and employee training and additional capital programs for construction projects that incorporate sustainability measures. Incentives are capitalized by federal, state and local governmental resources, as well as private sector funds, and are available to for-profit and non-profit corporations both small and large.

The City also utilizes several place-based economic development strategies to spur development in Philadelphia. These strategies include: (i) a 10-year real estate tax abatement on all construction, as well as on improvements to existing properties; (ii) Commonwealth-designated Keystone Opportunity Zones (KOZ) in which eligible businesses may be exempt from all state and local business taxes until a specified date; (iii) Commonwealth-designated Keystone Innovation Zones (KIZ) in which energy, defense, technology, and life-sciences companies may be eligible for saleable tax credits worth $100,000 annually for the first eight years of operations; (iv) tax increment financing; and (v) commercial corridor revitalization through support of Business Development Districts (BIDs) and reimbursement for certain storefront and interior retail improvements.

The City also supports business formation and job creation incentives in a variety of ways, including use of a Job Creation Tax Credit which may be applied against the City's Business Income and Receipts Tax liability. The City works with the Philadelphia business community to build internal and external alliances with minority, women and disabled owned business enterprises, and with private industries to help develop and promote these companies. The City also fosters entrepreneurship and small business formation through a dedicated office, the Office of Business Services. With the growth of Philadelphia's immigrant population, the City has actively pursued multilingual business outreach programming.

**Key Development Achievements**

Over the last two decades the efforts of these agencies, and others, have spurred significant economic changes. Today, Philadelphia is experiencing a construction boom, with over 33 major projects under construction concurrently, representing over $3.6 billion in combined public and private investment. Most significantly, in January 2014 Comcast Corporation announced that it expects to break ground in the summer of 2014 on a 59-story, $1.2 billion office tower adjacent to its headquarters building in Center City. Higher education and health care institutions are currently most actively engaged in development, with $1.4 billion being invested across 11 projects, the majority of which are concentrated in the University City and North Broad neighborhoods, while $537.0 million in new residential and mixed use projects are currently under construction across various neighborhoods throughout the City. Table 3 reflects major real estate developments under construction as of March 2013. In 2013, and the second quarter of 2014, 41 projects representing over $2.0 billion were completed.

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**Table 3**
**Selected Major Development Investments Under Construction**

| *Project Name, by Neighborhood* | *Project Type* | *Cost in Millions* | *Est. Completion Date* |
|---|---|---|---|
| **Center City** | | **$1,645.0** | |
| Dilworth Plaza | Public | $55.0 | Q3 2014 |
| Family Court | Public | $200.0 | Q4 2014 |
| Mormon Temple | Religious | $70.0 | Q4 2014 |
| 1900 Arch | Residential | $50.0 | Q4 2014 |
| Shirt Corner Development | Mixed Use | $20.0 | Q1 2015 |
| The Sterling - Redevelopment | Residential | $50.0 | Q2 2015 |
| Comcast Innovation and Technology Center | Commercial / Hotel | $1,200.0 | Q3 2017 |
| **University City** | | **$1,293.2** | |
| Science & Technology Center II University of the Sciences | University | $20.0 | Q3 2014 |
| Perelman Center - South Pavillion | Health Care | $100.0 | Q3 2014 |
| Advanced Care Hospital Pavilian - Penn Presbyterian Medical Center | Health Care | $92.0 | Q1 2015 |
| Buerger Center for Advanced Pediatric Care | Health Care | $500.0 | Q1 2015 |
| Cira Centre South - Chestnut Street | Mixed Use, inc. University | $158.5 | Q2 2015 |
| 3601 Market - UCSC Apartment Tower | Residential | $110.0 | Q2 2015 |
| Lancaster Square | University Residential | $170.0 | Q3 2015 |
| New College House at Hill Field | University Residential | $127.0 | Q3 2015 |
| Dornsife Center | University | $15.7 | Q4 2015 |
| **North Broad** | | **$305.0** | |
| Science, Education, & Research Center - Temple | University | $137.0 | Q3 2014 |
| Wanamaker Plaza - North Tower | Residential | $150.0 | Q3 2014 |
| Rodeph Shalom Expansion | Religious | $18.0 | Q4 2015 |
| Broad St Armory | Residential | - | Q2 2016 |
| **Navy Yard*** | | **$39.4** | |
| Building 18 - URBN Expansion | Commercial | - | Q3 2014 |
| Building 500 - Vetri Restaurant | Commercial | - | Q3 2014 |
| Building 661 | Commercial | $30.0 | Q3 2014 |
| Commerce 3 - EcoSave | Commercial | - | Q1 2015 |
| 201 Rouse Blvd - Franklin Square Capital | Commercial | - | Q1 2015 |
| Central Green (Park) | Public | $9.4 | Q2 2015 |
| **Other Neighborhoods** | | **$350.4** | |
| Belmont Mansion | Non-Profit | $1.4 | Q3 2014 |
| 9th St. Marketplace | Commercial | $12.0 | Q4 2014 |
| Franklin Mills | Commercial | $40.0 | Q4 2014 |
| Wynnefield Place Senior Apartments | Residential | - | Q3 2015 |
| St. Christopher's Hospital Expansion | Health Care | $120.0 | Q4 2015 |
| Park Towne Place - Redevelopment | Residential | $177.0 | Q4 2016 |
| **Total** | | **$3,633.0** | |

* Many development costs for Liberty Property Trust buildings at the Philadelphia Navy Yard are confidential, and are not made available for reporting purposes.

Table 4 below presents the trend of total value of building permits issued with a "Passed" final inspection by the City. The values shown include both new construction development as well as redevelopment of existing property.

**Table 4**
**Total Building Permit Value with a "Passed" Final Inspection, by Year Completed**

| Calendar Year | Commercial | Residential | Institutional | Miscellaneous Site Work | Total |
|---|---|---|---|---|---|
| 2008 | $ 1,355,637,811 | $ 424,677,243 | $ 61,761,053 | $ 92,882,179 | **$ 1,934,958,286** |
| 2009 | 1,023,643,944 | 647,304,077 | 398,496,674 | 97,336,048 | **2,166,780,743** |
| 2010 | 1,686,672,510 | 467,037,405 | 184,365,000 | 62,458,142 | **2,400,533,058** |
| 2011 | 984,851,222 | 524,312,029 | 242,804,057 | 68,149,412 | **1,820,116,720** |
| 2012 | 1,180,525,597 | 452,504,784 | 31,668,474 | 63,768,982 | **1,728,467,836** |
| 2013* | 1,559,101,112 | 326,679,411 | 8,855,000 | 76,777,671 | **1,971,413,193** |
| **Total** | **$ 7,790,432,196** | **$ 2,842,514,949** | **$ 927,950,258** | **$ 461,372,434** | **$ 12,022,269,836** |

*Permits through November 4, 2013.
Source: City of Philadelphia Department of Licenses & Inspections

**Convention, Hospitality and Tourism Achievements**

Chief among Philadelphia's development achievements is the expansion of the City's hospitality sector since 1993. Beyond driving growth in employment, development of amenities and cultural assets improve the tourist experience as well as quality of life for Philadelphia residents.

With Philadelphia's historic assets, the City has natural appeal as a tourist destination. The City continues to invest and work to grow development and employment in the leisure and hospitality sector. In 1993, with support from the Commonwealth, the Pennsylvania Convention Center was completed, providing a total of 624,000 square feet of saleable space across its four exhibit halls, ballroom and banquet spaces. In 2011, a $786 million expansion, across 20 acres of central Philadelphia real estate, increased the facility to 2.3 million square feet. It is the largest single public works project in Pennsylvania history. In January 2014, SMG began managing and operating the Pennsylvania Convention Center, instituting a number of measures intended to reduce and control show costs and improve customer service.

Over three million hotel room nights were sold in Center City in 2013, a 3.1% increase over 2012. Contributing to these sales, the Philadelphia Convention and Visitors Bureau (PHL CVB) hosted 453 meetings and conventions in 2013, filling 597,744 hotel room nights across the region, with an estimated economic impact of more than $973 million. The total Convention and Group segment of travelers, which includes smaller conferences and meetings not held in the Convention Center, purchased 35% of all hotel rooms booked in Center City 2013, accounting for 1,010,000 room-nights. In 2014, the Pennsylvania Convention Center expects to fill over 484,496 total hotel room nights across the region, and have an estimated economic impact of more than $729 million, while the total Convention and Group segment of Philadelphia hotel demand is expected to top 1,045,000 hotel nights.

The number of hotel rooms available in the City in 1993 was 5,613, with annual demand of 1,331,684 hotel rooms, representing 65% occupancy. As of March 2014, the City's hotel room inventory was 11,410 rooms, with occupancy in 2013 at 73.8%. In October 2013, City Council approved a Tax Increment Financing assistance package for the development of a 700-room hotel, home to both the W and Element brands, which will serve as an anchor to the Pennsylvania Convention Center. Additionally in February 2014, Mayor Nutter announced plans for the adaptive reuse of the City's former Family Division of the Court of Common Pleas building to become a 199-room luxury hotel under the Kimpton name.

Table 5 lists notable hotel developments since 2008, representing $782.9 million dollars in investment.

**Table 5**
**Notable Hotel Developments since 2008, in Millions**

| | |
|---|---|
| Four Points by Sheraton | $14.0 (Estimate) |
| Le Meridien | 61.0 (Estimate) |
| Kimpton Hotel Palomar | 94.0 |
| Homewood Suites University City | 43.0 |
| Marriott Courtyard, Navy Yard | 31.0 |
| Hotel Monaco by Kimpton | 88.0 |
| Hilton Home2 Suites | 60.0 |
| Residence Inn by Marriott (Opening 2014) | 26.0 (Estimate) |
| W Hotel / Element Hotel (Opening 2017) | 280.4 |
| Kimpton Hotel 1801 Vine St (Opening 2017) | 85.0 |
| Four Seasons Hotel in Comcast Tower | - |
| ***Total*** | ***$782.9 million*** |

Source: City of Philadelphia Commerce Department and PIDC

Despite a drop during the national recession beginning in 2008, by 2011, employment in the leisure and hospitality sector, at 60,684, exceeded pre-recession levels and grew even further by 2013 to 64,800 people employed in this sector. The Bureau of Labor Statistics reports that employment in this sector grew 2.5% in 2013, and 18.7% from 2004 to 2013.

In 2010, the City formed the Mayor's Hospitality Advisory Board, a collaborative effort between public, private, and nonprofit entities working to grow the hospitality sector in Philadelphia. The board proactively addresses issues such as customer experience and quality of life, hotel development, and marketing, including international marketing. Beyond working to increase convention business, the City and its regional partners work to increase leisure travelers as well. According to a 2013 report by Visit Philadelphia, the region's tourism and marketing corporation, since 1997 overnight leisure hotel stays have grown 80%. This can be attributed to a number of factors, notably, an increased supply of hotel rooms and marketing of the region. The City, through the Greater Philadelphia Tourism and Marketing Corporation, supports domestic marketing efforts.

The City supports international marketing efforts through the Philadelphia Convention and Visitors Bureau. The U.S. Office of Travel and Tourism Industries reported that international visitors to Philadelphia in 2012 numbered more than 595,000. Table 6 shows the Greater Philadelphia Region's visitation growth from 1997 to 2012.

**Table 6**
**Greater Philadelphia† Visitation Growth, 1997-2012**
**(in millions)**

| | *1997* | *2012* | *Net Change* | *Percent Growth* |
|---|---|---|---|---|
| **Total Visitation** | **26.7** | **38.8** | **12.1** | **45%** |
| Day - Leisure | 15.5 | 21.0 | 5.5 | 35% |
| Overnight - Leisure | 7.3 | 13.1 | 5.8 | 80% |
| Day - Business | 2.5 | 2.6 | 0.1 | 3% |
| Overnight - Business | 1.4 | 2.1 | 0.7 | 50% |

†Bucks, Chester, Delaware, Montgomery and Philadelphia counties.
Source: Visit Philadelphia, Tourism Economics, Longwoods International

Crucial to tourism is the City's robust arts and culture sector. The Center City District reports that one-in-three tourists who come to Center City Philadelphia cite museums and cultural events as the primary reason for their visit. In 2011, Travel + Leisure magazine ranked Philadelphia as the number one city for arts and culture in the United States. In 2013, major attractions in Center City, such as the Liberty Bell Center, Reading Terminal Market, and the Philadelphia Zoo, had over 15.6 million visitors.

Organizations like the Philadelphia Museum of Art, the Kimmel Center, FringeArts, and the more than 400 smaller cultural organizations throughout the City help improve the quality of life for residents and visitors, as well

as contribute to the estimated $580 million in revenue that the Philadelphia MSA's cultural organizations generated in 2010. Part of the wider economic impact generated by this revenue is demonstrated in the over 48,900 creative jobs that the sector supports within Philadelphia.

Table 7 lists attendance levels for many key attractions in Philadelphia.

**Table 7**
**2013 Attendance Levels Philadelphia Visitor Center & Select Attractions**

| ***Visitor Center/Attraction*** | ***Attendance*** |
|---|---|
| Reading Terminal Market | 6,249,134 |
| Independence Visitor Center | 2,127,774 |
| Liberty Bell Center | 1,806,497 |
| Philadelphia Zoo | 1,276,425 |
| Franklin Square | 928,733 |
| Franklin Institute | 852,139 |
| National Constitution Center | 809,969 |
| Philadelphia Museum of Art | 639,810 |
| Independence Hall | 630,418 |
| Please Touch Museum | 557,229 |
| Eastern State Penitentiary | 305,267 |
| The Barnes Foundation | 305,021 |
| Academy of Natural Sciences | 249,563 |
| University of Pennsylvania Museum of Archaeology and Anthropology | 156,899 |

Source: Philadelphia Area Hospitality Snapshot, PKF Consulting; Visit Philadelphia 2013; The Barnes Foundation

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**Historic District Investments**

Key to the City's leisure and hospitality growth is the maintenance and investment in the City's extraordinary historic assets. As the birthplace of the country, Philadelphia remains a major tourist destination year-round, particularly the City's Historic District, which includes such national treasures as the Liberty Bell, Independence Hall, Carpenters' Hall, Betsy Ross' house and Elfreth's Alley, the nation's oldest residential street. The City continues to invest in the maintenance and expansion of the Historic District's tourist experience.

Since 2001, $613 million worth of improvements and construction have occurred in Philadelphia's historic district, with an additional $100 million either under construction or planned over the next three years. Table 8 lists certain key attractions, the investment in which have complemented the City's notable existing historic assets. Coupled with proposed developments, public and private, this district is expected to remain competitive in the national and international tourism markets for years to come.

**Table 8**
**Select Historic District Investments since 2001**

| ***Select Completed Investments*** | ***Estimated Cost (Millions)*** |
|---|---|
| Independence Visitors Center | $38.0 |
| Independence National Historic Park Landscaping | 18.0 |
| National Constitution Center | 185.0 |
| Liberty Bell Center | 13.0 |
| Presidents House | 8.2 |
| Historic Philadelphia Franklin Square | 10.0 |
| Independence Park Institute | 2.0 |
| National Museum of Jewish American History | 150.0 |
| Hotel Monaco by Kimpton | 88.0 |
| Independence Hall Tower Investments | 4.8 |
| Franklin Court Museum | 21.0 |
| Penn Medicine at Washington Square | $75.0 |
| ***Select Completed Investment Total*** | ***$613.0*** |
| | |
| ***Select Future Investments*** | |
| The Shirt Corner – Mixed Use (Under Construction) | 20.0 |
| National Center For the American Revolution (Planned) | 100.0 |
| ***Select Future Investment Total*** | ***$120.0*** |
| ***Total*** | ***$733.0*** |

Source: City of Philadelphia Department of Commerce and PIDC

**Avenue of the Arts and North Broad Street Investment**

The Avenue of the Arts is located along a mile-long section of South Broad Street between City Hall and Washington Avenue, in the heart of Philadelphia's Center City. Reinventing South Broad Street as the Avenue of the Arts, a world class cultural destination, has been a civic goal in Philadelphia for nearly two decades. Serious consideration of a performing arts district began with the work of the Central Philadelphia Development Corporation and others in the early 1980s. Cultural institutions, the William Penn Foundation, local property owners and civic leaders advanced the idea of a performing arts district on South Broad Street anchored by the Academy of Music and modeled after successful performing arts districts around the country. The transformation of South Broad Street into the Avenue of the Arts progressed in the 1990s. The Avenue of the Arts became a key element of the City's strategy to strengthen Center City as the region's premier cultural destination and an important element in the City's bid to expand its convention and tourism industries. Table 9 provides an overview of investment to date in this district.

**Table 9**
**Avenue of the Arts Completed and Planned Development Projects**

| ***Selected Completed Investments*** | ***Estimated Cost (Millions)*** |
|---|---|
| Academy of Music Upgrades 1994-2002 | $30.0 |
| Wilma Theater 1996 | 8.0 |
| Philadelphia High School for the Creative and Performing Arts (CAPA) 1997 | 25.0 |
| Ritz Carlton Hotel 2000 | 88.0 |
| Kimmel Center 2001 | 235.0 |
| University of the Arts 2008 | 3.0 |
| Symphony House Condominiums 2008 | 165.0 |
| Philadelphia Theatre Company 2007 | 19.5 |
| Brandywine Workshop Upgrades 2009 | 1.0 |
| Philadelphia Clef Club Upgrades 2009 | 0.5 |
| Dranoff Residential/Restaurant/Retail 777 N. Broad 2009 / 2010 | 60.0 |
| Residences at the Ritz 2010 | 175.0 |
| Union League Civil War Museum 2011 | 2.4 |
| Marine Club Condo | 20.0 |
| Rock School/PA Ballet | 2.0 |
| Broad Street Improvements | 6.3 |
| Kimmel Center Improvements | 14.0 |
| South Star Lofts, Mixed-use Development | 32.0 |
| ***Selected Completed Investment Total*** | ***$886.7*** |
| ***Select Future Investments*** | |
| Academy of Music Upgrades (Underway) | 2.2 |
| 260 S. Broad St (Proposed) | - |
| Avenue Place, Mixed-use Development (Proposed) | - |
| ***Selected Future Investment Total*** | ***$2.2*** |
| ***Total*** | ***$888.9*** |

Source: City of Philadelphia Department of Commerce and PIDC

The 2011 expansion of the Pennsylvania Convention Center reignited development efforts along the key corridor of Broad Street north of City Hall (North Broad Street). Improvements include Lenfest Plaza, which is adjacent to the Pennsylvania Academy of Fine Arts (PAFA) and across from the Pennsylvania Convention Center expansion's entrance. Lenfest Plaza is also home to Paint Torch, a sculpture by world-renowned American artist Claes Oldenburg. Further north at Broad and Wood Streets, the Pennsylvania Ballet is poised to build their new $17.5 million headquarters, which will house rehearsal spaces and corporate offices when it opens in 2014.

At Spring Garden Street, the former State office building was redeveloped into 204 rental units and the former headquarters of the Philadelphia Inquirer and Philadelphia Daily News have been sold and are slated for housing and commercial development. Just north of Spring Garden, previously closed commercial businesses have been redeveloped to include 101 new residential lofts, new restaurants and a catering facility. The redevelopment of this block was initiated with the conversion of an empty building into a mixed use development with 250 fully-leased apartments.

Temple University has undergone a significant transformation over the past three decades from a university with a mostly commuter-based enrollment to one in which on- and near-campus housing is now in high demand. To meet the increasingly residential nature of its student population, Temple University has invested heavily in the renovation of its various existing student housing inventory as well as, most recently, the development of the new state-of-the art 33-story Morgan Hall residence facility, which houses approximately 1,275 students in a combination of singles, four-bed and five-bed apartment-suites. Morgan Hall opened in summer of 2013. Temple University has also actively partnered with private developers in the expansion of on-campus housing alternatives for students. There are currently an estimated 12,000 students living on or around the Temple University campus, not including its satellite regional campuses or international campuses in Rome, Italy and Tokyo, Japan. Temple University has begun $1.2 billion of investment, which will occur over the next decade, to further develop its North Broad Street frontage. Planned upgrades include a new student recreation facility, new academic buildings such as a 21st Century Library and a new science research lab.

Tying the corridor together is a planned streetscape enhancement project featuring trees, landscaping and decorative light masts, funded with a mix of federal, state and City funding. Table 10 is a list of recent, planned, and proposed projects on the North Broad Street corridor.

**Table 10**
**North Broad Street Development Projects**

| ***Development Project*** | ***Estimated Cost (Millions)*** |
|---|---|
| Pennsylvania Academy of the Fine Arts Hamilton Bldg 2005 | $21.0 |
| School District Administration Building Renovation 2005 | 92.0 |
| 640 N. Broad Apts/Retail 2006 | 50.0 |
| Pennsylvania Convention Center Expansion 2011 | 786.0 |
| PAFA Lenfest Plaza 2011 | 3.5 |
| 600 N. Broad Apts/Retail 2011 | 43.0 |
| Ave Arts N. Beech (1600 N. Broad) | 20.0 |
| Progress Plaza/Fresh Grocer | 14.0 |
| 1220 N. Broad Apt. Building Renovations | 2.3 |
| Beech Int'l House | 22.0 |
| Community Legal Services N. HQ | 8.0 |
| Paseo Verde Residential 2013 | 48.0 |
| Morgan Hall (Temple University Student Residence) 2013 | 148.0 |
| Tower Place 2013 | 70.0 |
| ***Selected Completed Investment Total*** | ***$1,327.8*** |
| ***Select Future Investments*** | |
| PA Ballet (Underway) | 17.0 |
| Science, Education, & Research Center – Temple University (Underway) | 137.0 |
| Avenue of the Arts N. Streetscape Improvements (Underway) | 15.0 |
| Uptown Theatre (Proposed) | 2.0 |
| Inquirer Building Development (Proposed) | 100.0 |
| Blue Horizon Development (Proposed) | 14.0 |
| Divine Lorraine (Proposed) | 42.0 |
| Hannover North Broad (Proposed) | - |
| ***Selected Future Investment Total*** | ***$327.0*** |
| ***Total*** | ***$1,654.8*** |

Source: City of Philadelphia Department of Commerce and PIDC

**Parkway Investments**

Complementing the Avenue of the Arts theater district developments, the Philadelphia Parkway is a signature public investment. Conceived as early as 1871, and opening in 1929, the Benjamin Franklin Parkway was originally designed to ease traffic and beautify the City. It runs from the area of City Hall to the Philadelphia Museum of Art and is at the heart of the City's museum district. Today it is central public space and is a principal tourist attraction. Key Parkway features include the Philadelphia Museum of Art, the Rodin Museum, the Franklin Institute, The Barnes Foundation, the Free Library of Philadelphia, the Academy of Natural History, the Swann Memorial Fountain, Cathedral Basilica of Saints Peter and Paul on Logan Square, and numerous pieces of public art.

As detailed in Table 11, since 2004 the Parkway has undergone additional transformation, improving streetscape and pedestrian access, and adding additional amenities that serve citizens of Philadelphia and visitors alike. Improvements include parks and open space and additions to the City's inventory of arts assets: Sister Cities Park, The Barnes Foundation Philadelphia Campus, and improvements to the Rodin Museum.

**Table 11**
**Select Parkway Investments since 2004**

| ***Select Investments*** | ***Estimated Cost (Millions)*** |
|---|---|
| Art Museum Renovations and Improvements | $141.0 |
| Sister Cities Plaza, Café Cret, Aviator Park & Other Improvements | 17.2 |
| Perelman Wing – Philadelphia Museum of Art | 90.0 |
| Franklin Institute | 50.0 |
| Waterworks | 5.8 |
| Rodin Museum Renovations | 20.9 |
| The Barnes Foundation | 100.0 |
| Philadelphia Museum of Art Loading Dock | 81.0 |
| Paines Skate Park | 5.0 |
| ***Select Completed Investment Total*** | ***$510.9*** |
| ***Select Future Investments*** | |
| Mormon Temple (Underway) | 70.0 |
| Free Library Renovations (Underway) | 20.0 |
| Dilworth Plaza Renovation (Underway) | 55.0 |
| Franklin Institute (Underway) | 65.0 |
| Philadelphia Museum of Art Expansion (Planned) | 419.0 |
| Holocaust Memorial (Planned) | 3.5 |
| 16th and Vine Apartments and Meetinghouse (Planned) | - |
| ***Select Future Investment Total*** | ***$632.5*** |
| ***Total*** | ***$1,143.4*** |

Source: City of Philadelphia Department of Commerce and PIDC

Opened in May 2012, The Barnes Foundation is a welcome addition to the City's impressive roster of arts facilities, and has already had a significant impact on the City's leisure and hospitality industry. In 2013, its first full year of operations, total attendance at The Barnes Foundation was approximately 305,000, and with membership over 25,000, it is ranked among the top institutions of its kind in the country.

Of overnight visitors, arts and culture visitors represent 17%, or about 1.36 million, of visitors to Philadelphia annually. According to a 2011 report from Visit Philadelphia, arts and culture visitors spend 54% more than the average visitor, stay longer, and are more likely to stay in a hotel.

**South Philadelphia Sports Complex**

Another key element of Philadelphia's hospitality industry is professional sports. Philadelphia is the only city to have a professional hockey, basketball, baseball, and football team playing in a single district within a city, the Sports Complex Special Services District, created by the City in 2000.

Today, the South Philadelphia Sports Complex houses three professional sports facilities: The Wells Fargo Center opened in 1996 and is home to the Philadelphia Flyers (NHL) and Philadelphia 76ers (NBA); Lincoln Financial Field opened in 2003 and is home to the Philadelphia Eagles (NFL); and Citizens Bank Park opened in 2004 and is home to the Philadelphia Phillies (MLB). The City leveraged its $300 million investment to obtain $200 million in State funding, and significant team contributions to new stadium development, $172 million from the Phillies and $310 million from the Eagles; the total project represents $1.01 billion in total investment. The Phillies and the Eagles are contractually obligated to play in Philadelphia for 30 years and each team is required to make a $30 million contribution to the Fund for Children established by The Philadelphia Foundation.

The Phillies have enjoyed one of the strongest home attendance figures of any team in Major League Baseball. In the 2009 through 2012 seasons, the Phillies had a paid home season attendance in excess of 100% of actual seating at Citizen's Bank Park. In 2010, the Phillies had the second highest attendance of any team in Major League Baseball and in both 2011 and 2012 the Phillies registered the highest home attendance of any team in Major League Baseball. The Phillies attendance rate declined in 2013 but remained in the top ten of Major League Baseball

teams. Average paid home season attendance for the Eagles in Lincoln Financial Field has exceeded 100% of actual seating, since its opening in 2003.

The most recent development for the area is Xfinity Live! Philadelphia, a 50,000 square foot sports entertainment and dining complex which opened in March 2012. The privately funded, $60 million venue includes a miniature sports field, hosting free concerts and other activities, an outdoor theater accommodating sports games and family films, and a dozen dining and bar establishments. The complex, a Comcast-Spectacor and Cordish owned company, also hosts the first ever, NBC Sports Arena, featuring a 32-foot LED HD television, displaying the NBC Sports Ticker, and in-game promotions. The entire complex is open year-round and sustains 276 full-time equivalent jobs.

**Gaming**

Legislation enacted by the Pennsylvania General Assembly currently authorizes 15 casinos with both slot machines and table games, including two stand-alone licenses for the City. Philadelphia's first casino, SugarHouse, opened in September 2010. SugarHouse Casino sits on the Delaware River waterfront offering an array of slot machines, table games and dining options. After a period of significant gains from 2010 through 2012, SugarHouse revenue has leveled off. Without an increase in the number of table games or slot machines offered, revenue is expected to maintain its current revenue levels relatively unchanged. In 2013 the casino's total revenue was $265,558,237, a decrease of 3.1% from 2012, and it employed 1,128 people, up from 1,098 in 2012.

After previously receiving local approval for an expansion plan, in May 2013, SugarHouse received approval from the Pennsylvania Gaming Control Board to expand its operations, including additional parking and a larger gaming floor. The $155 million expansion, expected to begin in July 2014 and be completed in September 2015, also is expected to add 500 additional employees to the casino.

The Pennsylvania Gaming Control Board is also reviewing five applications to award a second casino license in Philadelphia County. An announcement of the winning proposal is expected in summer 2014. Pennsylvania ranks behind only Nevada in terms of total gambling revenue and total slot machine revenue.

**Waterfront Developments**

Taking advantage of the City's geographic assets, the Schuylkill River and the Delaware River, the City is redeveloping its waterfront to accommodate a variety of developments, including mixed-use projects and housing, parks and recreational trails, and hotels. These projects improve quality of life for residents and improve the visitor experience, but also are an impetus for environmental remediation and private development of former industrial property within the City.

*Delaware River Waterfront Corporation*. The Delaware River has historically been a center of activity, industry, and commerce, bounded at its north and south ends by active port facilities. The Master Plan for the Central Delaware, adopted by the City in 2011, recognizes this character and aims to create region-serving amenities while also reconnecting the City's residents and visitors with the waterfront. Delaware River Waterfront Corporation (DRWC), in partnership with the City, is a nonprofit corporation that works to transform the central Delaware River waterfront into a vibrant destination for recreational, cultural, and commercial activities, and serves as a catalyst for investment in public parks, trails, maritime, residential, retail, hotel and other improvements that create a vibrant amenity for residents and visitors. In April 2014, the DRWC published a feasibility study for redevelopment of Penn's Landing, a major public space along the Delaware River waterfront. The Master Plan calls for a combination of public and private investment for the two million square foot development program.

*Schuylkill River Development Corporation*. Redevelopment along the Schuylkill River is managed by a partnership between the Schuylkill River Development Corporation (SRDC), the Department of Parks & Recreation, and the Department of Commerce. SRDC works with federal, state, City and private agencies to coordinate, plan and implement economic, recreational, environmental and cultural improvements and tourism initiatives on the Schuylkill River. From 1992 to 2014, SRDC has worked with the City to create 1.8 miles of riverfront trails within 17 acres of premiere park space in the heart of the City, and has added amenities to the Schuylkill River Park such as floating docks, fishing piers, composting toilets, and architectural bridge lighting. SRDC continues to work towards meeting its goal of creating and maintaining 10 miles of trail and 70 acres of green space along the tidal Schuylkill River in Philadelphia. Since 2005, Philadelphia has benefitted from more than $1 billion in development along the Schuylkill River, with more planned by private developers, universities, and healthcare institutions.

*Penn Park*. Although not publically funded, the University of Pennsylvania's Penn Park is a significant piece of infrastructure that strengthens the connection between University City and Center City, improving the resident and visitor experience. It lies along the west bank of the Schuylkill River, and complements the work of the SRDC.

The University of Pennsylvania opened Penn Park in 2011, increasing the University's green space by 20%. The park includes 24 acres of playing fields, open recreational space and pedestrian walkways located between Walnut and South Streets. Formerly parking lots, the park embraces sustainable features, including underground basins that capture rainwater and mitigate storm water overflow into the Schuylkill River. 45,000 cubic yards of soil, 2,200 pilings and more than 500 trees were installed to create canopied hills and picnic areas.

**Strategic Business Improvement Districts**

Starting in 1990, the City began working with business owners, residents, and non-profit organizations to revitalize commercial corridors through the successful creation of key business improvement districts (BIDs). BIDs provide an agreed-upon set of business services and improvements to businesses within an established boundary in exchange for a mandatory annual assessment from those businesses. BIDs are authorized by City Council. Currently, Philadelphia has twelve BIDs/Special Services Districts and two voluntary services districts in neighborhoods throughout the City. Since their inception, these districts have seen population growth, increased property values, lowered vacancy rates, and are some of the most desirable places to live and work in Philadelphia.

The Center City District and the University City District are the largest business improvement districts in the City which have played a pivotal role in the resurgence of their service areas,

The Center City District was founded in 1990 as a private-sector business improvement district. The district encompasses 120 blocks and more than 4,500 individual properties in an area that extends beyond the central business district, roughly from Vine Street to Spruce Street and 30$^{th}$ Street to 4$^{th}$ Street. Center City District provides security, cleaning and promotional services that supplement, but do not replace, basic services provided by the City and the fundamental responsibilities of property owners. Center City District also makes physical improvements to the downtown, installing and maintaining lighting, signs, banners, trees and landscape elements. The type of improvements managed by the Center City District are often credited with the area's increased desirability as a place to live and work, attracting a population with higher educational attainment and higher household income than national averages. At 29.1% of the population, Greater Center City has more than twice the national average of residents ages 25-34, according to the 2012 5-year American Community Survey estimates. In 2012, 75.4% of Center City residents 25 and older had a Bachelor of Arts degree or higher, compared to the national average of 28.5%. From 2000 to 2010, household income in Center City increased 49% to $59,345 from $39,715.

The University City District, founded in 1997, is Philadelphia's second largest business improvement district by area, population, and employment. The 2.2 square mile area holds 72,088 jobs, with an economy centered on its universities and hospitals. Like the Center City District, the University City District provides security, cleaning and promotional services. The District serves as an economic development entity through assisting both start-up and established businesses with regulatory compliance and in applying for grants, coordinating technical resources with neighborhood commercial corridors, and providing career networking opportunities for its residents. University City District works with city agencies in planning and implementing improvements for public spaces and transportation infrastructure.

**Office Market and New Development**

Philadelphia currently has approximately 41.9 million square feet of office space in the central business district. Total net absorption throughout 2013 was negative, mostly due to GlaxoSmithKline's move from downtown Philadelphia to a new facility in the Navy Yard. Two of the City's top corporate tenants continue to grow downtown. In July 2013, Independence Blue Cross renewed its long-term lease of over 800,000 sq. ft. until 2033. Comcast Corporation also took an additional 60,000 sq. ft. of office space at Three Logan Square, bringing the company's total occupancy at Three Logan Square to 200,000 sq. ft., in addition to Comcast's 1.2 million sq. ft. headquarters building.

Comcast Corporation recently announced that it expects to break ground in the summer of 2014 on a 59-story, $1.2 billion Comcast Innovation and Technology Center office tower adjacent to its headquarters building in Center City Philadelphia. The new skyscraper will enable Comcast to consolidate employees currently scattered at several sites (in both Philadelphia and the surrounding suburbs) at a single location. The facility will also create a

media center in the heart of the City by becoming home to the operations of local broadcast television stations NBC 10/WCAU and Telemundo 62/WWSI and offer space for local technology startups. The tower, when completed in 2017, will also serve as the new home to the Four Seasons Hotel, which will occupy the tower's top floors with approximately 200 rooms. The mixed-use tower is expected to be the tallest building in the United States outside of New York and Chicago and will be one of the largest private development projects in the history of Pennsylvania. Ultimately, the project is expected to create 1,500 permanent jobs in Philadelphia.

In the first quarter of 2014, Cushman & Wakefield ranked Philadelphia's downtown office market as having the ninth best vacancy rate among the twenty largest downtown office markets in the United States, with a vacancy rate of 12.7%. Direct asking rental rates in Philadelphia's central business district continued to rise throughout the year, increasing 2.3% from the first quarter of 2013 to the first quarter of 2014 to $26.06 per sq. ft.

**Table 12**
**Comparative Office Vacancy Rates, 20 Largest Office Markets**
**Fourth Quarter 2013**

| | |
|---|---|
| Manhattan (Midtown South) | 7.90% |
| San Francisco | 9.30% |
| Boston | 10.00% |
| Pittsburgh | 10.40% |
| Manhattan (Midtown) | 11.10% |
| Denver | 11.10% |
| Houston | 11.20% |
| Portland | 11.30% |
| **Philadelphia** | **12.70%** |
| Seattle | 12.70% |
| Chicago | 14.00% |
| Washington DC | 14.20% |
| Orange County | 14.60% |
| Cleveland | 17.40% |
| Detroit | 18.50% |
| Minneapolis | 20.20% |
| Atlanta | 20.40% |
| Phoenix | 20.40% |
| Los Angeles | 21.70% |
| Dallas | 24.90% |
| **All Markets** | **13.70%** |

*Source: Cushman Wakefield US Market Office Snapshot, Fourth Quarter 2013*

**Navy Yard**

Acquired in 2000 by PIDC through the Base Realignment and Closure process of the federal government, the Philadelphia Navy Yard represents the successful transition of a former naval property with a 125-year history as an active military base to a growing industrial asset. The Navy Yard is a 1,200 acre mixed-use office, research and industrial park, serving more than 130 companies. Currently 11,000 people work on site across 143 companies, supporting diverse tenants such as: the Aker Philadelphia Shipyard, one of the world's most advanced commercial shipbuilding facilities, the corporate headquarters for retailer Urban Outfitters, a new 205,000 square foot, LEED certified office building for pharmaceutical company GlaxoSmithKline, and a LEED-Silver certified baking facility for the Tasty Baking Company. In excess of 6.0 million square feet of space is currently occupied with significant additional capacity available for office, industrial, retail and residential development. In fall 2014, Urban Outfitters is expected to expand its existing headquarters to Building 18, a 92,000 sq. ft. former boiler and blacksmith shop that is undergoing a full renovation.

The Navy Yard is also home to the Consortium for Building Energy Innovation (CBEI), formerly the Energy Efficient Buildings Hub, a consortium of universities, businesses, and economic development groups, working to develop energy efficient building technologies. The CBEI is the recipient of $160 million in State and Federal funding and part of a U.S. Department of Energy program to create national Energy Innovation Hubs. In fall 2014, the CBEI plans to relocate to The Center for Building Energy Science (Building 661). The 38,000 sq. ft. building serves as a demonstration laboratory to showcase energy efficiency research. In summer 2014, the CBEI in

collaboration with Pennsylvania State University, plans to open a newly constructed 25,000 sq., ft. educational facility, The Center for Building Energy Education & Innovation.

In February of 2013, PIDC released an updated Navy Yard master plan, detailing a new, comprehensive vision for the Navy Yard. The plan calls for adding over 12 million square feet of new construction and historic renovation supporting office, R&D, industrial and residential development, complemented with commercial retail amenities, open spaces and expanded mass transit. At full build, The Navy Yard will support more than 20,000 employees and over $2 billion in private investment. Beyond buildings currently under construction, four projects are under construction in 2014, bringing the Navy Yard closer to its strategic targets. Currently construction projects include: an 80,000 sq. ft. headquarters for Franklin Square Partners, an investment firm; EcoSave, an Australian based energy and water efficiency company, will take 20,000 sq. ft. for their North American headquarters in a new 75,000 sq. ft. flex building; a new five-acre, $9.4 million park breaks ground in summer 2014 and will open in 2015; and restaurateur Mark Vetri will open a 150-seat restaurant in summer 2014 in a 4,700-square-foot former gatehouse. Current and upcoming construction of these developments is valued at almost $134 million.

**Retail Market**

Philadelphia continues to establish itself as a retail destination. In October of 2013, Colliers International reported that the fastest rising retail rents in the nation were on Philadelphia's Walnut Street, with 33.8% growth since October 2012. Throughout Philadelphia's downtown, the tenant mix continues to move toward national brands that can support growing rents. Recent additions include Stuart Weitzman, Madewell, Theory, Ulta, Intermix, and Suit Supply, the European chain's fifth US store. Japanese retailer Uniqlo is scheduled to open its first Philadelphia location in Center City in the fall of 2014. Other luxury retailers will soon follow; Barney's New York and Nordstrom Rack are expected to open in 2014.

Plans to revitalize East Market Street continue. In March 2014, NREA Development Services announced a mixed-use redevelopment project, Girard Square, located on East Market Street between 11th and 12th Streets. Once completed, the project will include 325 apartments, and up to 122,000 square feet of retail space. In April 2013, the Pennsylvania Real Estate Investment Trust (PREIT) acquired 430,000 square feet of retail and commercial space at 907 Market Street, giving a single entity ownership of The Gallery at Market East, a 130-store retail mall complex. Within a block, Marshalls opened a 60,000 square foot store in October 2012, also on East Market Street. Revitalizing East Market Street is a priority for the City, and City officials are working closely with PREIT to bring additional commercial and retail tenants to the area. Just one block south of Market Street, Brickstone Co. announced a mixed-use redevelopment project for the 1100 block of Chestnut Street in April 2014. The project, a mix of new construction and historic preservation,will include up to 115 apartments and 90,000 square feet of retail space.

Data from the Bureau of Labor Statistics show that 48,418 people were employed in retail trades and 44,465 in food service and drinking establishments in 2012. The number of private retail establishments and private food services and drinking establishments has recovered from pre-recession levels, increasing by 203 and 180 establishments, respectively, from 2007 to 2012.

Table 13 reflects taxable retail sales for the City from Fiscal Years 2007 to 2013.

**Table 13**
**Taxable Retail Sales 2007-2013**
**(Amounts in Thousands of USD)**

| Fiscal Year | Taxable Sales |
|---|---|
| 2007 | 13,643,582 |
| 2008 | 13,704,958 |
| 2009 | 13,211,446 |
| 2010 | 13,050,202 |
| 2011 | 12,403,442 |
| 2012 | 12,721,337 |
| 2013 | 12,880,000 |

Source: Figures determined by dividing the City's local sales tax reported by the Pennsylvania Department of Revenue by the applicable local sales tax rate.

**Food and Dining**

Philadelphia has experienced a revival in restaurant establishments especially in the Center City District, indicating an improved quality of life and vibrancy of that area. The Center City District's investment in the beautification of the area as well as the City's support in making the area more welcoming to visitors and diners sparked a significant increase in the number of indoor/outdoor dining establishments throughout the Center City District and other neighborhoods throughout the City. In 1995 no sidewalk cafes existed in Center City. By 2013 the same area had 327 sidewalk cafes. Additionally. from 1992 to 2010, the number of fine dining establishments within the Center City District increased 322%. Rapid development is also reflected in South Philadelphia, where East Passyunk was named a Top Ten Best Foodie Street in America by Food and Wine Magazine in May 2013.

**Airport**

Philadelphia International Airport (PHL) is the only major airport serving the City. PHL and Northeast Philadelphia Airport (PNE), PHL's general aviation reliever airport, are owned and operated by the City of Philadelphia.

PHL is classified by the Federal Aviation Administration as a large air traffic hub. According to data reported by Airports Council International – North America, PHL was ranked the eighteenth busiest airport in the United States, serving 30.3 million passengers in calendar year 2012, and was ranked the tenth busiest in the nation based on aircraft operations (take-offs and landings). Origin-destination traffic for Fiscal Year 2013 accounted for approximately 55% of annual passengers, with the remaining 45% being passengers who connected between flights. Enplanement levels at PHL have remained relatively stable despite the overall stagnant global economy since 2009. In Fiscal Year 2013, PHL saw a slight decrease of 0.8 percent in total enplanements, from 15.3 million to 15.2 million. For the first six months of Fiscal Year 2014 (July-December 2013), enplanements have increased 1.2% compared to the first six months of Fiscal Year 2013.

During the second quarter of calendar year 2014, an average of 29 tenant airlines are serving the airport and providing an average of 563 daily departures to 130 destinations, including an average of 60 daily departures to 40 international destinations. Situated on 2,394 acres, the Airport consists of seven terminals and four runways.

***PHL Capital Projects***

A 10-year planning process and a seven-year environmental review process culminated in January 2011 with the Federal Aviation Administration (FAA) issuing a Record of Decision approving the Airport's Capacity Enhancement Program (CEP) which enables the Airport to proceed with the next steps required to expand and make needed improvements.

In January 2013, PHL and its airline partners agreed upon a two-year extension to the Airport-Airline Use & Lease Agreement that will run through June 30, 2015. The extension allows for $734 million in new capital investments, bringing the total capital improvement program to approximately $1.1 billion. The new projects include: an extension of runway 9R/27L to provide the capability to accommodate large, long-haul aircraft flying to any point on the globe; airside improvements to include new taxiways, aircraft holding bays, and apron areas to allow aircraft to queue more efficiently for departure; a redesigned and enhanced Terminal B/C ticketing area, which will include a new, automated baggage handling and screening system and a new, more spacious, centralized passenger security screening checkpoint to provide for greater efficiency and enhanced passenger flow; replacement of the current rental car facility surface lots with a new, multi-story consolidated rental car facility; initial design for an automated people-mover system between concourses that will make it easier for passengers to connect to other flights; and continued rehabilitation of other existing airport infrastructure to include: security upgrades, roof and window replacements, escalator upgrades, airport restrooms, roadways, concession programs and flight information display systems.

In November 2013, the Governor of the Commonwealth signed a comprehensive transportation bill into law (Act 89 of 2013). This legislation permits the Airport to establish and collect a "Customer Facility Charge" (CFC). The CFC will provide funding for a new consolidated rental car facility, which will serve the Airport's rental car customers.

Also in November 2013, the newly redesigned Terminal F Hub opened featuring 20 new food, beverage and retail shops, a 300-seat food court area, new permanent artwork and an enhanced bus shelter.

***Major Airline Events***

On February 14, 2013, AMR Corporation, the parent company of American Airlines, Inc., and US Airways Group, Inc. announced that the boards of directors of both companies unanimously approved a definitive merger agreement under which the companies will combine and operate under the American Airlines name. The merger was completed on December 9, 2013, and in March 2014, US Airways joined the "oneworld" alliance, which allows passengers to book domestic and international flights on oneworld partner airlines. In Fiscal Year 2013, US Airways and American operated an average of 460 daily flights and 16 daily flights at PHL, respectively, accounting for an aggregate 75.9 percent of the Airport's enplaned passengers.

***New Air Service***

Since 2012, five new airlines have started service at PHL. Virgin America began daily nonstop flights in April 2012 to Los Angeles and San Francisco. Alaska Airlines began daily nonstop flights in June 2012 to its hub in Seattle. In the spring of 2013, Spirit Airlines began serving PHL with daily flights to Dallas-Fort Worth and Las Vegas and seasonal flights to Myrtle Beach. In April 2013, JetBlue began serving PHL with daily flights to Boston. Most recently, in April 2014, Qatar Airways began daily nonstop service between Philadelphia and Doha, the capital of the State of Qatar, the first new service by a foreign flag carrier at PHL in more than a decade.

In 2014, American/US Airways announced new nonstop daily service from PHL to Watertown, New York beginning in May 2014, and from PHL to Charleston, West Virginia, Lexington, Kentucky, and Memphis, Tennessee beginning in June 2014, adding a total of four new domestic routes to the airline's network. In addition, American/US Airways announced new seasonal nonstop daily flights between PHL and Scotland's capital city of Edinburgh, beginning in May 2014.

**Port of Philadelphia**

The Port of Philadelphia is located on the Delaware River within the City limits. Philadelphia's Port facilities are serviced by three Class I railroads (CP Rail, CSX and Norfolk Southern) and provide service to major eastern Canadian points as well as Midwestern, southern and southeastern U.S. destinations. Terminal facilities, encompassing four million square feet of warehousing, are located in close proximity to I-95 and I-76. Over 300 local trucking companies operate in the MSA, with a combined total of over 15,000 trucks.

The Philadelphia Regional Port Authority is working to increase the Port's competitiveness with increased capacity. The Port of Philadelphia is 60% complete in deepening the main navigation channel of the Delaware River from 40 to 45 feet. Future plans also include the construction of the Southport facility, a container terminal that will be located at the east end of The Navy Yard. Southport will be the first new terminal in Philadelphia in 50 years. Construction of Southport is scheduled to begin in late 2014 and the first component of the project is projected to begin operating in 2018.

The Port of Philadelphia moved 5,100,385 metric tons of cargo in 2013, a 15% increase over 2012. The Port is in the midst of an $120 million expansion project which will ultimately increase cargo capacity for the entire MSA. The Port of Philadelphia is the top ranked port for meat importing in the United States, and is among the nation's leaders for fruit, cocoa, forest products and steel. In February 2014, the Port announced that the Brazilian company Fibria Celulose S.A., the world's largest producer of bleached eucalyptus wood pulp, will relocate its Northeastern United States distribution center to the Tioga Marine Terminal from Baltimore. The move is expected to create 228 stevedore and terminal jobs and up to 380 total jobs including rail workers and truckers.

## ECONOMIC BASE AND EMPLOYMENT

**The Philadelphia Economy**

The City's economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is the major regional business and personal services center with strengths in insurance, law, finance, health, education, utilities, and the arts. As of 2011, there were approximately 174,000 residents of Philadelphia's four suburban counties (Bucks, Chester, Delaware, and Montgomery) working within the City, and an additional 121,000 from counties outside the five-county region. The City also provides a destination for entertainment, arts, dining and sports for residents of the suburban counties, as well as for those residents of the counties comprising the extended Philadelphia MSA. (See Philadelphia Metropolitan Statistical Area -MSA- herein for further information.)

The cost of living in the City is relatively moderate compared to other major metropolitan areas. The City, as one of the country's education centers, offers the business community a large, diverse, and industrious labor pool.

**Key Industries**

Philadelphia has developed an increasingly diverse economy centered on healthcare, higher education, professional and business services, and leisure and hospitality. In its January 2012 Monthly Labor Review, the Bureau of Labor Statistics predicted that these sectors would grow nationally in the decade between 2010 and 2020. Healthcare and social assistance is predicted to grow 3% annually, educational services 2.3% annually, and professional and business services 2.1% annually, while financial activities and leisure and hospitality are predicted to both see a 1% annual gain.

In 2012 these sectors - health services, higher education, professional and business services, financial services and leisure and hospitality - collectively represented 63% of total employment in the City, and 66% of total private sector wages. Philadelphia has recovered 14,500 private sector jobs since the peak of the recession in 2009, and the 2012 annual average total employment was slightly higher than in 2005. As reflected in Table 17, employment has generally trended upwards in education and health services and leisure and hospitality over the period shown. These sectors provide stability to the City's overall economy.

Compared to the nation, Philadelphia demonstrates concentrations in seven sectors: educational services, health care and social assistance, management of companies and enterprises, finance and insurance, professional and technical services, arts, entertainment, and recreation, and transportation and warehousing. Of these seven sectors, the City has a higher concentration of employment than the Commonwealth of Pennsylvania in five sectors: education services, health care and social assistance, finance and insurance, professional and technical services, and arts, entertainment and recreation.

The concentration of education services not only provides stable support to the local economy, but also generates a steady and educated workforce, especially fueling the City's professional services and healthcare industries. The City is capitalizing on the region's assets to become a leader in research generated by life sciences and educational institutions. Several sites now foster incubator facilities, including the Navy Yard, the Science Center in West Philadelphia and the west bank of the Schuylkill River bordered by the University of Pennsylvania, Children's Hospital of Pennsylvania and Drexel University.

The City's economy also enjoys a large market share of for-profit creative industry companies which are entrepreneurial and technology-driven, known as businesses representing the "creative economy." The sector includes architecture, communications, design and merchandising, digital media, engineering, fashion design, graphic arts, information technology, interior and industrial design, marketing, music, film and video production, multimedia design, photography, planning product design and software development.

In September of 2012, the third largest national venture capital firm by volume, First Round Capital, moved its headquarters from West Conshohocken, PA to a 10,000 square foot facility in Philadelphia that includes incubator and co-working space. The move follows other large suburban firms, Bentley Systems, Fiberlink, and SevOne that have opened "satellite" offices in close proximity to Philadelphia universities. Also citing access to talent as a key driver, rapid growth companies like brand.com and Bulogics have taken larger steps, relocating their headquarters in the last year to Philadelphia. In December 2013, national seed-stage accelerator DreamIt Ventures announced it will open a 17,500 sq. ft. headquarters in University City in collaboration with the University City Science Center, Drexel University, and the City of Philadelphia.

Philadelphia entrepreneurs can access a burgeoning network of incubator, multi-tenant, and co-working spaces across the city. More than 60 organizations house a diverse range of startups from fashion and video gaming, to bio-tech and clean energy. Other incubators and advocates like Ben Franklin Technology Partners, DreamIt Ventures, Philly Startup Leaders, University City Science Center, and Technically Philly provide networking opportunities and access to venture capital. Capitalizing on this momentum, the City launched an initiative called Startup PHL in partnership with PIDC in October of 2012. The initiative includes a $6 million seed-stage investment fund managed by First Round Capital, and grants to organizations that offer programming to entrepreneurs.

**Table 14**
**Ratio of Philadelphia and Pennsylvania Industry Concentrations**
**Compared to the United States**

| Industry | Pennsylvania | Philadelphia County |
|---|---|---|
| Educational Services | 1.59 | 4.68 |
| Health Care and Social Assistance | 1.24 | 1.74 |
| Management of Companies and Enterprises | 1.46 | 1.28 |
| Finance and Insurance | 1.02 | 1.16 |
| Professional and Technical Services | 0.91 | 1.12 |
| Arts, Entertainment, and Recreation | 1.07 | 1.14 |
| Transportation and Warehousing | 1.13 | 1.08 |

*Source BLS: 2012 Location Quotient, Quarterly Census of Employment and Wages Data. Ratio of analysis-industry employment in the analysis area to base-industry employment in the analysis area divided by the ratio of analysis-industry employment in the base area to base-industry employment in the base area.*

### Educational Institutions

The Philadelphia MSA plus Mercer County, New Jersey, has the second largest concentration of students on the East Coast with 101 degree granting institutions of higher education and a total enrollment of over 300,000 students. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and LaSalle University. Within a short drive from the City are such schools as Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University.

### Hospitals and Medical Centers

The City is a center for health, education, research and science facilities with the nation's largest concentration of healthcare resources within a 100-mile radius. There are presently more than 30 hospitals, five medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry and veterinary medicine, and the Philadelphia Center for Health Care Sciences in West Philadelphia. The City is one of the largest health care and health care education centers in the world, and a number of the nation's largest pharmaceutical companies are located in the Philadelphia area.

Major research facilities are also located in the City, including those located at its universities, its medical schools, The Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. In 2013 the Children's Hospital of Philadelphia completed the construction of a $400 million biomedical research facility located within the Philadelphia Center for Health Care Sciences in West Philadelphia. Philadelphia is home to two of the nation's 41 National Cancer Institute-designated Comprehensive Cancer Centers (the Abramson Cancer Center at the University of Pennsylvania and Fox Chase Cancer Center, which is part of the Temple University Health System). Additionally, Philadelphia is also home to two NCI-designated Cancer Centers (Kimmel Cancer Center and the Wistar Institute Cancer Center).

Table 15 lists the number of licensed and staffed beds in each of the major hospitals and medical centers in the City, as of June 2013, and does not reflect any mergers, consolidations or closures that have occurred since that date.

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**Table 15**
**Hospitals and Medical Centers as of June 2013**

| Institution Name | Total Licensed Beds | Total Staffed Beds |
|---|---|---|
| Aria Health[1] | 480 | 480 |
| Belmont Center for Comprehensive Treatment | 147 | 147 |
| Chestnut Hill Hospital | 130 | 67 |
| Einstein Medical Center-Philadelphia | 772 | 445 |
| Fox Chase Cancer Center | 98 | 97 |
| Hahnemann University Hospital | 496 | 496 |
| Hospital of the University of Pennsylvania | 789 | 789 |
| Jeanes Hospital | 176 | 156 |
| Kensington Hospital | 45 | 45 |
| Magee Rehabilitation Hospital | 96 | 96 |
| Mercy Philadelphia Hospital | 178 | 157 |
| Nazareth Hospital | 203 | 173 |
| Penn Presbyterian Medical Center | 305 | 305 |
| Pennsylvania Hospital | 496 | 402 |
| Roxborough Memorial Hospital | 141 | 141 |
| St. Joseph's Hospital[3] | 197 | 182 |
| St. Mary Medical Center | 373 | 310 |
| St. Christopher's Hospital for Children | 189 | 189 |
| Shriners Hospitals for Children - Philadelphia | 53 | 39 |
| Temple University Hospital[2] | 728 | 728 |
| The Children's Hospital of Philadelphia | 521 | 493 |
| Thomas Jefferson University Hospital[4] | 969 | 945 |

Source: Source: PA Department of Health, Report 1A-1B, 2013.
[1]Aria Health System includes data for all three divisions - Frankford, Torresdale and Bucks County.
Temple University Hospital includes data for Episcopal Hospital.
[3]St. Joseph's Hospital includes data for Girard Medical Center/Continuing Care Hospital of Philadelphia.
[4]Thomas Jefferson University Hospital includes data for the Methodist Hospital Division.

**Children's Hospital Expansion**. Top ranked Children's Hospital of Philadelphia (CHOP) is one of the largest and oldest children's hospitals in the world. Since 2002, CHOP has invested over $2.6 billion in its expansion in Philadelphia, which is one of the largest hospital expansions in the U.S. The $500 million Ruth and Tristram Colket, Jr. Translational Research Building opened in 2010. The Trustees of CHOP recently approved an additional investment of $2.7 billion in CHOP's ambitious expansion in Philadelphia through 2017. The $500 million, 700,000 square foot Buerger Center for Advanced Pediatric Care is currently under construction and is scheduled to open in 2015. Future projects include phase one of a nine-acre, 1.5 million square foot medical research campus along on the east banks of the Schuylkill River which is expected to be completed by the end of 2016.

**University of Pennsylvania**. The University of Pennsylvania, a private Ivy League institution, sits on a 300 acre campus in West Philadelphia across the river from downtown Philadelphia. Its more than 20,000 undergraduate, graduate and professional full time students attend more than 12 graduate and professional schools on its single campus within the City. The University and its health system is the largest private sector employer in Philadelphia employing over 30,000 staff with an annual budget of $6 billion. In 2011 the University completed a $400 million medical research building, the Smilow Center for Translational Research, and has since invested additional amounts to fit out three floors in the facility. In 2011, the University broke ground on the Krishna P. Singh Center for Nanotechnology, an $88 million nanotechnology research facility combining expertise from both its School of Arts and Sciences and its School of Engineering and Applied Science. This newest research facility opened in October 2013. In February 2014, the University unveiled a masterplan for an Innovation and Research Park called Pennovation Center, a 23-acre parcel located on the south side of the Schuylkill River. The masterplanning process includes redevelopment plans for the entire acreage, however the University has been leasing various buildings with an innovation center end-use in mind for the past two years. The area already houses diverse technology companies such as KMel Robotics, Netronix, and Novapeutics, each stemming from innovations developed in Philadelphia universities.

**The Wistar Institute**. The Wistar Institute was founded in 1892 and was the nation's first independent biomedical research facility. The Institute has started construction on a $100 million expansion and renovation project that will significantly increase its ability to carry out its mission.

**Drexel University**. Founded in 1891 as the Drexel Institute of Science, Art and Industry, the University occupies a 74-acre University City Main Campus. Drexel's student body has grown considerably in the past two decades, from 4,500 in 1996 to over 10,000 students today, resulting in expansion of both curriculum and campus. Drexel's 2007 Master Plan not only lays the foundation for the expansion of its institutional facilities and student housing, but calls for considerable investment in green space, streetscape improvements, and mixed-use development that includes retail.

To date, $232 million is allocated for construction already in progress, and an estimated $300 million will be allocated for projected construction projects through 2016. In September, 2011 Drexel University opened the doors to its new $69-million science building, the Constantine N. Papadakis Integrated Sciences Building. The University recently completed construction of a $92 million 12-story facility for its LeBow School of Business and a new mixed use residential and retail project on Chestnut Street. Design is also complete for a $44 million renovation of a 161,000 square foot building housing the College of Media Arts and Design.

**Principal Employers in the City**

Table 16 lists Philadelphia's 16 largest employers, by wage tax revenue. Six are hospitals and providers of other medical services, four are renowned universities, and three are in the finance and insurance industry. Other sectors represented include food services, bio-tech, information, and leisure and hospitality: GlaxoSmithKline LLC, an international researcher and manufacturer of pharmaceuticals, the headquarters for Comcast Corporation, one of the country's largest IT and communications providers, and Aramark Corporation, an employer of food service workers are among Philadelphia's largest wage tax contributors. This list highlights Philadelphia's strength in its centers of medicine and higher learning.

Two of the City's largest employers, Aramark Corporation and Comcast Corporation are also Fortune 500 companies. Although not among the largest employers, other Fortune 500 companies found in Philadelphia are Crown Holdings Inc., Cigna Corporation, and Sunoco Inc. A number of Fortune 1000 companies are also within the City: FMC Corporation, Urban Outfitters Inc., and Radian Group Inc.

**Table 16**
**Principal Employers by Wage Tax Revenue, Summer 2013**

| *Employer* | *Sector* | *Employees within Philadelphia* |
|---|---|---|
| University of Pennsylvania | Education | 15,626 |
| University of Pennsylvania Health System | Health | 15,448 |
| Children's Hospital of Philadelphia | Health | 9,788 |
| Drexel University | Education | 9,356 |
| Thomas Jefferson University Hospitals | Health | 7,899 |
| Temple University | Education | 7,878 |
| Aramark Corporation | Food Service | 6,535 |
| Albert Einstein Medical | Health | 5,900 |
| Temple University Hospital, Inc. | Health | 5,414 |
| Thomas Jefferson University | Education | 4,192 |
| Independence Blue Cross | Insurance | 3,534 |
| Comcast Corporation | Communications | 3,250+ |
| Tenet Healthsystems Hahnemann LLC | Health | 2,782 |
| Ace Insurance Company | Insurance | 1,409 |
| GlaxoSmithKline LLC | Bio-tech | 1,300* |
| Radian Group, Inc. | Insurance | 585 |
| | Total | 100,896 |

Source: City of Philadelphia Department of Commerce
* Estimate as of January 2012
+As of January 2012

## The Labor Force

The City demonstrates strength in education and health services relative to its surrounding Pennsylvania suburbs. Just under a third of Philadelphia's employment is in education and health services. While considerable in suburban counties, this sector represents under one-fifth of their combined economy.

In 2013, Philadelphia ended the year with a total employment of 666,100, the highest level since 2003 when it was 671,400. The highest levels of growth occurred in Professional and Business Services, Education and Health Services, and Hospitality and Leisure. Preliminary data from the Bureau of Labor Statistics (BLS) for 2014 shows that total employment continues to grow, increasing by 11,500 jobs since the start of the year. Philadelphia's employment reached 673,700 in May, which is higher than any May since May 2003 when total employment was 676,900.

Table 17 shows non-farm payroll employment in the City over the last decade by industry sectors.

**Table 17**
**Philadelphia**
**Non-Farm Payroll Employment[(1)]**
**(Amounts in Thousands)**

| Sector | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Change from 2004 | Average Annual % Change | Share of Total Employment |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Construction & Mining | 11.4 | 12.0 | 12.4 | 11.9 | 12.1 | 10.1 | 10.0 | 10.0 | 10.2 | 10.5 | -7.9% | -0.7% | 1.6% |
| Manufacturing | 32.6 | 31.2 | 29.9 | 28.5 | 27.8 | 25.7 | 24.7 | 23.7 | 22.9 | 21.8 | -33.1% | -3.6% | 3.3% |
| Trade, Transportation, & Utilities | 90.9 | 90.0 | 88.5 | 87.8 | 87.6 | 85.9 | 86.6 | 87.4 | 88.9 | 89.8 | -1.2% | -0.1% | 13.5% |
| Information | 13.6 | 13.2 | 12.8 | 12.6 | 12.5 | 12.6 | 12.2 | 12.0 | 12.0 | 11.6 | -14.7% | -1.4% | 1.7% |
| Financial Activities | 49.0 | 48.2 | 47.7 | 47.1 | 46.5 | 44.9 | 42.6 | 41.6 | 41.0 | 41.1 | -16.1% | -1.6% | 6.2% |
| Professional & Business Services | 80.3 | 82.4 | 84.2 | 85.8 | 85.3 | 80.1 | 81.6 | 83.0 | 84.1 | 86.2 | 7.3% | 0.6% | 12.9% |
| Education & Health Services | 180.1 | 182.5 | 187.7 | 192.4 | 196.7 | 199.2 | 202.3 | 206.4 | 208.1 | 209.2 | 16.2% | 1.4% | 31.4% |
| Leisure & Hospitality | 54.6 | 56.6 | 58.0 | 58.0 | 57.9 | 56.9 | 58.4 | 60.6 | 63.2 | 64.8 | 18.7% | 1.6% | 9.7% |
| Other Services | 28.5 | 28.5 | 28.2 | 28.0 | 27.8 | 26.6 | 26.5 | 26.4 | 26.8 | 27.4 | -3.9% | -0.4% | 4.1% |
| Private Sector Total | 541.0 | 544.6 | 549.4 | 552.1 | 554.2 | 542.0 | 544.9 | 551.1 | 557.2 | 562.4 | 4.0% | 0.4% | 84.4% |
| Government | 116.9 | 115.7 | 113.2 | 110.6 | 109.2 | 110.4 | 112.1 | 109.0 | 105.3 | 103.7 | -11.3% | -1.1% | 15.6% |
| Total | 657.9 | 660.3 | 662.5 | 662.7 | 663.3 | 652.6 | 657.1 | 660.0 | 662.3 | 666.1 | 1.2% | 0.1% | 100.0% |

*Source: Bureau of Labor Statistics (BLS) 2013.*
[(1)] Includes persons employed within the City, without regard to residency.

## Unemployment

Philadelphia continues to experience unemployment at a rate higher than the national average. However at the start of the recession, from 2008 to 2009, Philadelphia's unemployment rate increased by 2.5%, a full percent lower than the overall increase in unemployment for the country during the same period. Mayor Nutter has made lowering unemployment a top priority in his second term. To that end, the City has created a Jobs Commission, which in January 2013 released a strategic plan to lower unemployment.

Employment gains in the latter part of 2013 and in 2014 have resulted in a decline in Philadelphia's unemployment rate. Preliminary data from BLS shows that May's unemployment rate reached 7.7%, a decline of 1.2% since January. Monthly figures are more volatile than annual statistics and these preliminary results are subject to change.

Table 18 below shows six years of unemployment information for Philadelphia, the MSA, the Commonwealth and the United States.

**Table 18**
**Unemployment**
**Six-Year Unemployment in Selected Geographical Areas, 2008-2013**

| *Geographical Area* | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | *Change2008-2013* |
|---|---|---|---|---|---|---|---|
| United States | 5.8% | 9.3% | 9.6% | 8.9% | 8.1% | 7.4% | 1.6% |
| Pennsylvania | 5.4 | 7.9 | 78.4 | 8.0 | 7.9 | 7.4 | 2.0 |
| Philadelphia-Camden-Wilmington MSA | 5.4 | 8.2 | 8.9 | 8.6 | 8.5 | 7.8 | 2.4 |
| **Philadelphia** | **7.1** | **9.6** | **10.8** | **10.9** | **10.8** | **10.0** | **2.9** |

*Source: Local Area Unemployment Statistics, Bureau of Labor Statistics*

Throughout the 1990s and as late as 2009, Philadelphia narrowed the gap between its unemployment levels and national levels. The effects of the recession are reflected in the period 2010-2012.

**Median and Average Household Income**

Table 19 and 20 show median family income, which includes related people living together, and median household income, which includes unrelated individuals living together, for Philadelphia, the MSA, the Commonwealth and the United States. Table 21 shows the average household income for the same areas. Over the period 2005-2012, median family income for Philadelphia increased by 10.1%, while average household income increased by 29.6% over the period 2005-2011 as a result of an influx of higher income households.

**Table 19**
**Median Family Income* for Selected Geographical Areas, 2005-2012**

| *Geographical Area* | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | *Change 2005-2012* |
|---|---|---|---|---|---|---|---|---|---|
| United States | $55,832 | $58,526 | $60,374 | $63,211 | $62,367 | $62,112 | $62,735 | $63,105 | $7,273 |
| Pennsylvania | 55,904 | 58,148 | 60,243 | 63,071 | 62,772 | 63,040 | 64,331 | 65,050 | 9,146 |
| Philadelphia-Camden-Wilmington MSA | 67,830 | 70,781 | 73,536 | 76,978 | 76,812 | 76,710 | 78,083 | 77,791 | 9,961 |
| **Philadelphia** | **40,534** | **43,049** | **44,134** | **46,365** | **45,826** | **45,148** | **45,044** | **44,621** | **4,087** |

*Includes related people living together.
Source: American Community Survey, Annual and 3-Year Estimates

**Table 20**
**Median Household Income* for Selected Geographical Areas, 2005-2012**

| **Geographical Area** | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | *Change 2005 - 2012* |
|---|---|---|---|---|---|---|---|---|---|
| United States | $46,242 | $48,451 | $50,007 | $52,175 | $51,369 | $51,222 | $51,484 | $51,771 | $5,529 |
| Pennsylvania | 44,537 | 46,259 | 47,913 | 50,272 | 50,028 | 50,289 | 51,016 | 51,402 | 6,865 |
| Philadelphia-Camden-Wilmington MSA | 53,555 | 55,593 | 57,831 | 60,331 | 60,232 | 60,037 | 60,625 | 60,444 | 6,889 |
| **Philadelphia** | **32,753** | **33,229** | **34,767** | **36,222** | **36,725** | **35,952** | **35,956** | **35,581** | **2,828** |

*Includes unrelated people living together.
Source: American Community Survey, Annual and 3-Year Estimates

Given the City's high percentage of knowledge-based industries, including higher education, healthcare and other professional services, such as law, accounting and finance, the average household income within the City is materially higher than the median household income. Also contributing to this effect is the fact that Philadelphia has the fifth largest college and graduate program enrolled population among major U.S. cities. These individuals, numbering approximately 152,500 according to the 2012 American Community Survey, or 10% of the City's overall population, generally have very low or no income, as they are either unemployed or working only part-time while they complete their education. The City's large student population has also historically led to an overstatement of the City's percentage of residents living at or below the poverty level. Average household income, which more accurately adjusts for the City's large student population and strong, well-paying knowledge-based industries, is summarized in Table 21 below.

**Table 21**
**Average Household Income for Selected Geographical Areas**
**2000-2012**

| Year | City of Philadelphia | Philadelphia-Camden-Wilmington MSA | Pennsylvania | United States | Philadelphia as % of US |
|---|---|---|---|---|---|
| 2000 | $ 63,914 | $ 91,627 | $ 77,279 | $ 80,665 | 79.23% |
| 2001 | 67,092 | 96,309 | 80,482 | 82,815 | 81.01 |
| 2002 | 70,427 | 98,780 | 81,945 | 83,286 | 84.56 |
| 2003 | 73,011 | 101,471 | 84,167 | 85,224 | 85.67 |
| 2004 | 75,348 | 106,180 | 88,008 | 89,624 | 84.07 |
| 2005 | 78,063 | 110,239 | 91,076 | 93,663 | 83.35 |
| 2006 | 82,284 | 117,841 | 96,989 | 99,506 | 82.69 |
| 2007 | 86,623 | 121,962 | 101,275 | 103,633 | 83.59 |
| 2008 | 93,389 | 125,801 | 104,100 | 106,899 | 87.36 |
| 2009 | 95,039 | 124,101 | 102,680 | 103,774 | 91.58 |
| 2010 | 99,278 | 126,794 | 105,500 | 106,166 | 93.51 |
| 2011 | 103,875 | 133,065 | 111,054 | 111,528 | 93.14 |
| 2012 | 105,734 | 136,460 | 114,019 | 115,037 | 91.91 |

*Source: IHS Global Insight*

**Consumer Price Index**

Philadelphia has the second lowest consumer price index among major cities along the Northeast Corridor, as shown in Table 22 below. The City markets its relatively low labor costs and cost of living to attract businesses considering locating to the region. Additionally, the City's proposed Twenty-Third Five-Year Plan (as defined in Appendix A) resumed reductions in the Wage, Earnings, and Net Profits Tax, which will further incentivize both business and residents to relocate into the City.

**Table 22**
**2012 Consumer Price Index of Cities in the Northeastern U.S.**

| Metropolitan Area | CPI |
|---|---|
| New York-Northern New Jersey-Long Island | 150.75 |
| Washington-Arlington-Alexandria | 141.48 |
| Boston-Cambridge-Quincy | 139.4 |
| Philadelphia-Camden-Wilmington | 122.57 |
| Baltimore-Towson | 116.6 |

Source: Select Greater Philadelphia, 2012 ACCRA Cost of Living Index

## HOUSING

The 2012 American Community Survey reported 668,947 housing units in Philadelphia, with 576,889 occupied and 92,058 vacant, representing a vacancy rate of 13.8%. Of occupied housing units, 53.4% were owner-occupied and 46.6% were renter-occupied. The homeowner vacancy rate was just 3.1%, while the rental vacancy rate was 7.6%.

Home sales volume decreased 4.5% from the first quarter of 2013 to the first quarter of 2014, to 2,774, while first quarter prices citywide are up 3.5% from the previous year, at a median sales price of $115,000. This reflects a continuation of a mixed market that is up in one quarter and down in the next, however the longer-run picture is one of steady growth, according to a Real Estate Value Trends Report published by Econsult Solutions. Econsult Solutions reports the declines in sales reflects a national housing market trend of slowed home sales in this quarter. Consistent with demographic shifts of population growth in Greater Center City, districts that had the largest annual increase in median sales price are areas adjacent to Center City: University City at 21.1%, Lower North at 14.5%, River Wards at 11.4%, and South Philadelphia at 10.6%..

## KEY CITY-RELATED SERVICES AND BUSINESSES

### Transportation

The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to PHL and to the surrounding counties. A high speed train line (PATCO) runs from southern New Jersey to Center City and is operated by the Delaware River Port Authority. An important addition to the area's transportation system was the opening of the airport high speed line between Center City and the Airport in 1985. The line places PHL less than 25 minutes from the City's central business district and connects directly with the commuter rail network and the Pennsylvania Convention Center. The opening of the commuter rail tunnel in 1984 provided a unified City transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines, the high speed line to New Jersey, and the airport high speed line. More than 100 truck lines serve the Philadelphia area.

Amtrak, SEPTA, Norfolk Southern, CSX Transportation, Conrail and the Canadian Pacific provide inter-city commuter and freight rail services connecting the City to the other major cities and markets in the United States. According to Amtrak, Philadelphia's 30th Street Station is the 3rd busiest station in the United States. Structural improvements of $30 million were recently completed to the station, and an additional $60 million restoration project is awaiting federal approval.

The City now has one of the most accessible downtown areas in the nation with respect to highway transportation by virtue of I-95; the Vine Street Expressway (I-676), running east-to-west through the Central Business District between I-76 and I-95; and the "Blue Route" (I-476) in suburban Delaware and Montgomery Counties which connects the Pennsylvania Turnpike and I-95 and connects to the Schuylkill Expressway (I-76) which runs to Center City Philadelphia.

The Airport was opened in 1940, is owned by the City and operated by the Division of Aviation, and serves residents of and visitors to a broad geographic area that includes portions of four states: Pennsylvania, New Jersey, Delaware and Maryland. The primary service region of the Airport consists of the Philadelphia and Wilmington Metropolitan Statistical Areas. The Airport is located partly in the southwestern section of the City and partly in the northeastern section of Delaware County 7.2 miles from Center City Philadelphia. PHL is situated over 2,300 acres of land. It is adjacent to I-95 and is served by a SEPTA commuter rail line with direct service to Center City Philadelphia. Philadelphia Northeast Airport (PNE), located on the northeast part of the City, provides for general aviation, air taxi, corporate, and occasional military use. PNE currently has no scheduled commercial service.

PHL is classified by the Federal Aviation Administration (the "FAA") as a large air traffic hub. According to the Airport Council International – North America, PHL was ranked the eighteenth busiest airport in the United States, serving approximately 30.3 million passengers in calendar year 2012. PHL also ranked as the tenth busiest airport in the nation in calendar year 2012 based on aircraft operations (take-offs and landings), with 443,236 aircraft movements. Origin-destination traffic for Fiscal Year 2013 accounted for approximately 55% of annual passengers, with the remaining 45% being passengers who connected between flights. As of March 2014, twenty-nine tenant airlines serving the airport provided over 560 daily flights to 125 cities, including 91 domestic and an average of 57 flights to 38 international destinations.

### Water and Wastewater

The water and wastewater systems of the City are owned by the City and operated by the City's Water Department. The water system provides water to the City (134 square mile service area), to Aqua Pennsylvania, Inc., formerly Philadelphia Suburban Water Company, and to the Bucks County Water and Sewer Authority. The City obtains approximately 58% of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 483,955 retail customers through 3,172 miles of mains, 3 water treatment plants,

15 pumping stations and provides fire protection through 25,321 fire hydrants. The water treatment plants continue to meet and /or exceed their Safe Drinking Water Act as well as partnership for Safe Water standards.

The wastewater system services a total of 364 square miles of which 134 square miles are within the City and 230 square miles are in suburban areas. The total number of retail customer accounts is approximately 528,938, including approximately 49,993 storm water only accounts. The wastewater and storm water systems contain three water pollution control plants, a biosolids processing facility, 19 pumping stations, and approximately 3,719 miles of sewers. The wastewater treatment plants continue to meet and/or exceed their National Pollutant Discharge Elimination System permit limits.

**Solid Waste Disposal**

The City is responsible for collecting solid waste, including recycling, from residential households and some commercial establishments. On average, approximately 2300 tons of solid waste per day are collected by the City. Municipal solid waste is disposed of through a combination of recycling processing facilities, private and City transfer stations within the City limits, and at various landfills operated outside the City limits.

**Parks**

The City was originally designed by William Penn and Thomas Holme around five urban parks, each of which remains in Center City to this day. The City's parklands total over 10,300 acres, and include Fairmount Park, the world's largest landscaped urban park at 9,200 acres, Pennypack Park, and the Philadelphia Zoo, the country's first zoo. The City also offers its residents and visitors America's most historic square mile, which includes Independence Hall and the Liberty Bell.

**Libraries**

The Free Library of Philadelphia, the City's public library system, is one of the pre-eminent libraries in the world, comprised of 54 branches and an extensive online resource system.

**Streets and Sanitation**

The Philadelphia Streets Department and the divisions within it are responsible for the City's large network of streets and roadways. The Department is also responsible for the ongoing collection and disposal of residential trash and recyclables, as well as the construction, cleanliness and maintenance of the street system. The streets system in Philadelphia totals 2,575 miles - 2,180 miles of City streets, 35 miles of Fairmount Park roads and 360 miles of state highways. The Highway Unit and Sanitation Division annually collects and disposes of approximately 600,000 tons of rubbish and 125,000 tons of recycling, completes over 48,000 miles of mechanical street cleaning, clears 1,800 major illegal dump sites, and removes over 155,000 abandoned tires.

**Sustainability and Green Initiatives**

The Mayor has stated one of his top priorities is to make Philadelphia the greenest and most sustainable city in America. To aid in achieving this goal, the newly created Philadelphia Energy Authority has been tasked with improving energy sustainability and affordability in the City and with educating consumers on their energy choices. The City is also actively evaluating options and investing in green infrastructure to better manage storm water reclamation and reduce pollution of the City's public waters. There has been extensive investment in creating more and better public green spaces, such as Love Park in Center City as well as green spaces along both the Delaware and Schuylkill Rivers. Finally, the City has been taking steps to further reduce automobile traffic, congestion and pollution by making Philadelphia's streets increasingly friendly to bicyclists. Philadelphia is on-track to introduce its new bicycle sharing system in fall 2014. Bicycle share programs have been successfully implemented in other cities worldwide. The new program will have over 600 new bicycles in its first phase and up to 2,000 bicycles once fully implemented.

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# APPENDIX C

## ANNUAL FINANCIAL REPORT OF THE CITY OF PHILADELPHIA FOR THE YEAR ENDED JUNE 30, 2013

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# City of Philadelphia

P E N N S Y L V A N I A

*Founded 1682*

Fairmount Park Waterworks

# Comprehensive Annual Financial Report

## Fiscal Year Ended June 30, 2013

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# City of Philadelphia

P E N N S Y L V A N I A

# Comprehensive Annual Financial Report

## Fiscal Year Ended June 30, 2013

**Michael Nutter**
**Mayor**

**Prepared by:**

**Office of the Director of Finance**

**Rob Dubow**
**Director of Finance**

**Joseph Oswald**
**Accounting Director**

*Office of the Director of Finance • 1330 MSB • Philadelphia, PA 19102*

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**City of Philadelphia**
**OFFICE OF THE DIRECTOR OF FINANCE**
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Philadelphia, Pennsylvania 19102-1693

**ROB DUBOW**
Director of Finance

February 24, 2014

To the Honorable Mayor, Members of City Council, and the People of the City of Philadelphia:

The Comprehensive Annual Financial Report of the City of Philadelphia for the fiscal year ended June 30, 2013, is hereby submitted. The financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City.

The Philadelphia Home Rule Charter (Charter) requires an annual audit of all City accounts by the City Controller, an independently elected official. The Charter further requires that the City Controller appoint a Certified Public Accountant in charge of auditing. These requirements have been complied with and the audit done in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).

Management has provided a narrative to accompany the basic financial statements. This narrative is known as Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

## PROFILE OF THE GOVERNMENT

The City of Philadelphia was founded in 1682 and was merged with the County of Philadelphia in 1854. The City currently occupies an area of 135 square miles along the Delaware River, serves a population in excess of 1.5 million and is the hub of a five county metropolitan area including Bucks, Chester, Delaware and Montgomery Counties in southeast Pennsylvania. The City is governed largely under the Home Rule Charter, which was adopted by the Electors of the City of Philadelphia on April 17, 1951, and became effective on the first Monday of January, 1952. However, in some matters, including the issuance of short-term and long-term debt, the City is governed by the laws of the Commonwealth of Pennsylvania. The Charter provides for a strong mayoral form of government with the Mayor and the seventeen members of the City Council, ten from districts and seven from the City at-large, elected every four years. Minority representation is assured by the requirement that no more than five candidates may be elected for Council-at-large by any one party or political body. The Mayor is prohibited from serving more than two consecutive terms.

This report includes all the funds of the City as well as its component units. The Philadelphia Municipal Authority's and the Pennsylvania Intergovernmental Cooperation Authority's statements are blended with the City's statements. The Philadelphia Gas Works', the Philadelphia Redevelopment Authority's, the Philadelphia Parking Authority's, the School District of Philadelphia's, the Community College of Philadelphia's, Community Behavioral Health, Inc.'s, the Delaware River Waterfront Corporation's, and the Philadelphia Authority for Industrial Development's statements are presented discretely. A component unit is considered to be part of the City's reporting entity when it is concluded that there is a financial benefit, or burden, to the City or that the nature and significance of the relationship between the City and the entity is such that exclusion would cause the City's financial statements to be misleading or incomplete. The relationship between the City and its component units is explained further in the *Notes to the Financial Statements*.

Reflected in this report is the extensive range of services provided by the City of Philadelphia. These services include police and fire protection, emergency medical services, sanitation services, streets maintenance, recreational activities and cultural events, and traditional county functions such as health and human services, as well as the activities of the previously mentioned public agencies and authorities. The City operates water and wastewater systems that service the citizens of Philadelphia and the City operates two airports, Philadelphia International Airport which handles in excess of 30 million passengers annually as well as cargo and Northeast Philadelphia Airport which handles private aircraft and some cargo.

City government is responsible for establishing and maintaining internal controls designed to protect the assets of the City from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. This internal control is subject to periodic evaluation by management and the City Controller's Office in order to determine its adequacy. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget proposed by the Mayor and approved by City Council for the fiscal year beginning July 1st. Activities of the General Fund, City Related Special Revenue Funds and the City Capital Improvement Funds are budgeted annually. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by major class within an individual department and fund for the operating funds and by project within department and fund for the Capital Improvement Funds. The City also maintains an encumbrance accounting system for control purposes. Encumbered amounts that have not been expended at year-end are carried forward into the succeeding year but appropriations that have not been expended or encumbered at year-end are lapsed.

## FACTORS AFFECTING FINANCIAL CONDITION

The information presented in this report is best understood in the context of the environment in which the City of Philadelphia operates. A more comprehensive analysis of these factors is available in the City's Five-Year Financial Plan which is presented by the Mayor each year pursuant to the Pennsylvania Intergovernmental Cooperation Authority Act and can be obtained online at *www.phila.gov/finance/.*

### Local Economy

Philadelphia is showing progress on several fronts, despite continued fiscal challenges that arise from the demographic and economic changes that have occurred over the last half century. The City has experienced new investment in many of its neighborhoods spurred by the relative affordability of housing and the City's extensive array of cultural amenities. In addition, as the chart below demonstrates the city's population, and income, have shown increases in each of the two previous calendar years. Still, significant challenges remain. The City's tax base is under pressure as personal income levels remain relatively low in comparison to the region and poverty in the region has become increasingly concentrated in the City.

As is the case with municipalities across the country, the City experienced significant tax revenue declines during the deep world-wide recession of 2007-2009. The economic recovery has been slow and while tax revenues are rebounding, revenue from some taxes have yet to hit the level they attained before the recession. Since October of 2008, the City has implemented significant actions to balance the budget and its five year plans, including: reducing General Fund employee headcount; implementing a temporary five year sales tax increase and a real estate tax increase; pension funding changes; freezing City funded wage tax and business income and receipts tax reductions until fiscal 2014; and, instituting spending cuts throughout the government. As a result of these actions as well as several one-time revenues, the City's fund balance on a legally enacted basis increased from $146.8 million in fiscal 2012 to $256.9 million in fiscal 2013. The City's current projection for the fund balance level at the end of fiscal 2014 is $101.5 million.

While the recession officially ended in June 2009, unemployment remains high and many economists anticipate that the recovery will continue to be slow. This is particularly relevant to state and local governments, whose tax revenues generally lag economic conditions.

The table below shows how Philadelphia's local economy has trended in the past five years, characterized by population fluctuations, with increases since 2010 in total compensation and lower unemployment rates.

| Calendar Year | Population | Personal Income | Per Capita Personal Income | Unemployment Rate |
|---|---|---|---|---|
| | | (thousands of USD) | (USD) | |
| 2008 | 1,540,351 | 54,262,716 | 35,228 | 7.1% |
| 2009 | 1,547,297 | 54,061,223 | 34,939 | 9.6% |
| 2010 | 1,526,006 | 56,970,074 | 37,333 | 10.8% |
| 2011 | 1,538,567 | 62,632,520 | 40,708 | 10.8% |
| 2012 | 1,547,607 | 64,151,742 | 41,452 | 10.5% |

**Long Term Financial Planning**

Long term financial planning for the City and for businesses and governments around the world has been made much more challenging with the sudden and dramatic rate of deterioration in the economy in the past five and a half years. As discussed above, the City has made significant changes to its budget and five-year plan to compensate for projected deficits and will continue to make those adjustments as necessary.

Some of the largest and fastest growing expenditures in the City's budget include employee health and pension benefits. In fiscal 2013, employee benefits (14%) and pensions (17%) combined, comprised 31% of the total budgeted expenditures and encumbrances.

In order to address the challenges these long term structural costs present, the City has made changes to its labor contracts in the areas of health and pension benefits and is continuing to seek changes in its open contracts. The City has already made changes in the City-administered benefits programs to reduce the cost to the City, implement efficiency savings and increase employee health benefit contributions. Also, the City made additional changes to the health care related to the FOP as a result of the December 18, 2009 Act 111 arbitration award. These changes include lowering the cost to the City, increasing the share paid by employees, changing the funding structure and providing financial incentives to the health fund to keep costs down.

In the area of pensions, the City has sought to reduce its costs, reduce its risk and increase employee contributions. The 2009 FOP interest arbitration introduced a new hybrid pension plan with defined

benefit and defined contribution components for police officers and gave new hires the option of participating in this new plan or paying an additional 1% of pay to enter the existing plan. The City was awarded similar pension changes in the October 12, 2010 Act 111 arbitration award with the IAFF. A 2011 interest arbitration award involving the employees of the Sheriff's Office and Register of Wills included a new hybrid pension plan with defined benefit and defined contribution components for new hires as well. For employees of the Register of Wills, this new plan is mandatory for new hires, while employees of the Sheriff's Office have a choice between the existing plan with a higher employee contribution or the new plan. Interest arbitration awards issued in 2012 covering more than 2,000 prison guards represented by District Council 33 and a unit of court employees represented by District Council 47 require all new hires to enter into the hybrid plan. The interest arbitration covering the prison guards also increased the employee contribution for pensions for current employees. The City has proposed similar changes to exempt and non-represented employees, elected officials and employees represented by Local 2186 of District Council 47. Implementation of these pension changes for prison guards, courts employees, and the latter groups awaits City Council passage of the applicable ordinances. The City is seeking similar changes with the remaining bargaining units whose contracts expired in July of 2009.

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded its prestigious Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This was the thirty third consecutive year that the City of Philadelphia has received this prestigious award. The City received this recognition by publishing a report that was well organized and readable and satisfied both generally accepted accounting principles and applicable legal requirements.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Office of the Director of Finance as well as various City departments and component units. Each has my sincere appreciation for their valuable contributions.

Sincerely,

**ROB DUBOW**
Director of Finance

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

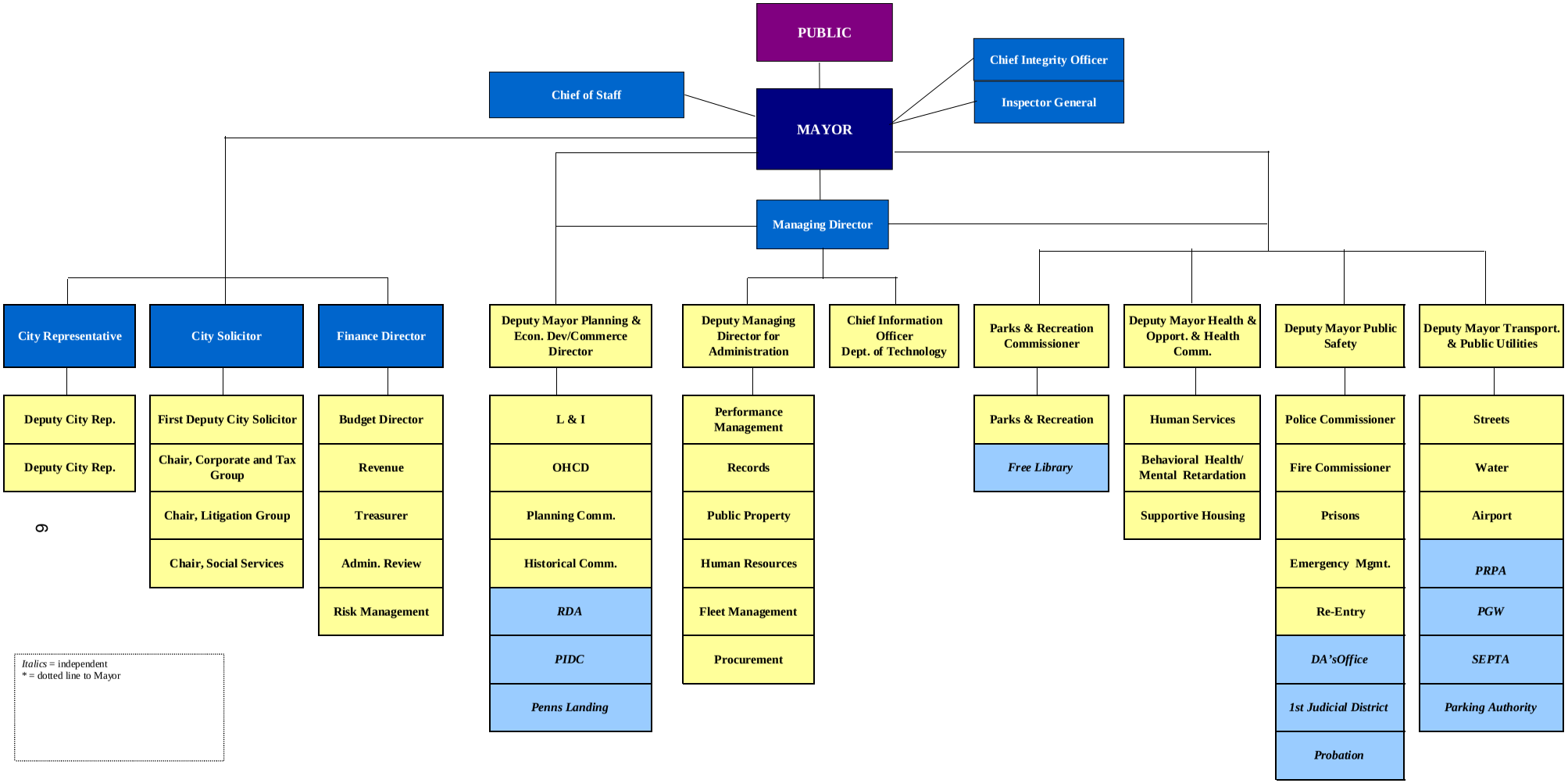
Presented to

## City of Philadelphia
## Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO


PUBLIC
Chief of Staff
MAYOR
Chief Integrity Officer
Inspector General
Managing Director
City Representative
Deputy City Rep.
Deputy City Rep.
City Solicitor
First Deputy City Solicitor
Chair, Corporate and Tax Group
Chair, Litigation Group
Chair, Social Services
Finance Director
Budget Director
Revenue
Treasurer
Admin. Review
Risk Management
Deputy Mayor Planning & Econ. Dev/Commerce Director
L & I
OHCD
Planning Comm.
Historical Comm.
RDA
PIDC
Penns Landing
Deputy Managing Director for Administration
Performance Management
Records
Public Property
Human Resources
Fleet Management
Procurement
Chief Information Officer Dept. of Technology
Parks & Recreation Commissioner
Parks & Recreation
Free Library
Deputy Mayor Health & Opport. & Health Comm.
Human Services
Behavioral Health/ Mental Retardation
Supportive Housing
Deputy Mayor Public Safety
Police Commissioner
Fire Commissioner
Prisons
Emergency Mgmt.
Re-Entry
DA'sOffice
1st Judicial District
Probation
Deputy Mayor Transport. & Public Utilities
Streets
Water
Airport
PRPA
PGW
SEPTA
Parking Authority
Italics = independent
* = dotted line to Mayor

## Elected Officials

Mayor ..... Michael A. Nutter

City Council
- President, 5th District ..... Darrell L. Clarke

- 1st District ..... Mark Squilla
- 2nd District ..... Kenyatta Johnson
- 3rd District ..... Jannie L. Blackwell
- 4th District ..... Curtis Jones, Jr.
- 6th District ..... Bobby Henon
- 7th District ..... Maria D. Quinones-Sanchez
- 8th District ..... Cindy Bass
- 9th District ..... Marian B. Tasco
- 10th District ..... Brian J. O'Neill
- At-Large ..... Blondell Reynolds Brown
- At-Large ..... W. Wilson Goode, Jr.
- At-Large ..... William K. Greenlee
- At-Large ..... David Oh
- At-Large ..... James F. Kenney
- At-Large ..... Bill Green
- At-Large ..... Dennis O'Brien

District Attorney ..... Seth Williams

City Controller ..... Alan Butkovitz

City Commissioners
- Chairman ..... Anthony Clark
- Commissioner ..... Al Schmidt
- Commissioner ..... Stephanie Singer

Register of Wills ..... Ronald R. Donatucci

Sheriff ..... Jewell Williams

First Judicial District of Pennsylvania
- President Judge, Court of Common Pleas ..... Pamela P. Dembe
- President Judge, Municipal Court ..... Marsha H. Neifield
- President Judge, Traffic Court ..... Vacant

## Appointed Officials

| | |
|---|---|
| Managing Director | Richard Negrin |
| Director of Finance | Rob Dubow |
| City Solicitor | Shelley R. Smith |
| City Representative | Desiree Perkin-Bell |
| | |
| Chief of Staff | Everett A. Gillison |
| Deputy Mayor for Public Safety | Everett A. Gillison |
| Deputy Mayor for Health & Opportunity/Health Commissioner | Donald R. Schwarz, MD |
| Deputy Mayor for Planning & Economic Development/Commerce Director | Alan Greenberger |
| Deputy Mayor for Transportation and Utilities | Rina Cutler |
| Chief Integrity Officer | Joan L. Markman |
| Inspector General | Amy L. Kurland |
| Chief Education Advisor to the Mayor | Lori A. Shorr, Ph.D. |
| | |
| Chief Innovation Officer | Adel W. Ebeid |
| City Treasurer | Nancy Winkler |
| Revenue Commissioner | Clarena Tolson |
| Procurement Commissioner | Hugh Ortman |
| Police Commissioner | Charles Ramsey |
| Prisons Commissioner | Louis Giorla |
| Streets Commissioner | David J. Perri |
| Fire Commissioner | Lloyd Ayers |
| Commissioner of Parks and Recreation | Michael DiBerardinis |
| Public Property Commissioner | Bridget Collins-Greenwald |
| Director of the Office of Behavioral Health | Arthur C. Evans, MD |
| Department of Human Services Commissioner | Anne Marie Ambrose |
| Licenses and Inspections Commissioner | Carlton Williams |
| Water Commissioner | Howard Neukrug |
| Records Commissioner | Joan T. Decker |
| Human Resources Director | Albert L. D'Attilio |
| Executive Director of the Board of Pensions & Retirement | Francis X. Bielli |
| Executive Director of the Sinking Fund Commission | Charles Jones |
| Chief Executive Officer of PHL | Mark Gale |
| Director of the Office of Labor Relations | Rene Vargas |

# CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679
(215) 686-6680 FAX (215) 686-3832

ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Honorable Members
of the Council of the City of Philadelphia

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. With the exception of the School District, we did not audit the financial statements of the blended component units and the discretely presented component units listed in Note I.1, as well as the Municipal Pension Fund, the Gas Works Retirement Reserve Fund, and the Departmental and Permanent Funds which represent 33% and 18% of the total assets and revenues, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units and funds, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Changes in Accounting Principles***

As discussed in Note I.10 to the financial statements, in 2013 the City adopted new accounting principles required by Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 25, and the major funds budgetary comparison schedules, the pension plans and other post employment benefits - schedule of funding progress, and the related notes to required supplementary information, on pages 120 through 124 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the above required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit for the year ended June 30, 2013 was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements. The accompanying Other Supplementary Information for the year ended June 30, 2013, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Other Supplementary Information has been subjected to the auditing procedures applied in the audits of the basic financial statements for the year ended June 30, 2013, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended June 30, 2013.

The other information, which includes the Introductory Section and Statistical Section as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Philadelphia, Pennsylvania as of and for the year ended June 30, 2012 (not presented herein), and have issued our report thereon dated February 21, 2013, which contained unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. The 2012 amounts included in the individual fund schedules of Budgetary Actual and Estimated Revenues and Obligations for the year ended June 30, 2012 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 financial statements. The 2012 amounts included in the individual fund schedules of Budgetary Actual and Estimated Revenues and Obligations have been subjected to the auditing procedures applied in the audit of the 2012 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 amounts included in the individual fund schedules of Budgetary Actual and Estimated Revenues and Obligations are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2012.

Gerald V. Micciulla

GERALD V. MICCIULLA, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 24, 2014

SEAL OF THE CITY OF PHILADELPHIA
PHILADELPHIA
MANETO

# City of Philadelphia
PENNSYLVANIA

## *Management's Discussion & Analysis*

This narrative overview and analysis of the financial statements of the City of Philadelphia, Pennsylvania for the fiscal year ended June 30, 2013 has been prepared by the city's management. The information presented here should be read in conjunction with additional information contained in our letter of transmittal, which can be found beginning on page 1, and the city's financial statements immediately following this discussion and analysis.

### Financial Highlights

- At the end of the current fiscal year, the assets and deferred outflows of the City of Philadelphia exceeded its liabilities by 15.2 million. Its *unrestricted net position* showed a deficit of $2,415.5 million. This deficiency will have to be funded from resources generated in future years.

- During the current fiscal year the city's total net position increased by $50.1 million. The governmental activities of the city experienced an increase of $2.9 million, while the business type activities had an increase of $47.2 million.

- For the current fiscal year, the city's governmental funds reported a combined ending fund balance of $582.5 million, an increase of $35.8 million from last year. The *unassigned fund balance* of the governmental funds ended the fiscal year with a deficit of $134.4 million, a decrease of $47.2 million from last year.

- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed, assigned* and *unassigned* components of the fund balance) for the general fund was $188.0 million, of which, $90.0 million was *unassigned* which represents the residual amounts that have not been assigned to other funds. The *unassigned fund balance* increased by $90.0 million in comparison with the prior year.

- On the legally enacted budgetary basis, the city's general fund ended the fiscal year with a surplus fund balance of $256.9 million, as compared to a $146.8 million surplus last year. This increase of $110.1 million was due to an increase in revenues that resulted in an operating surplus of $84.7 million and the cancellations of prior year obligations further increased the fund balance.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction and overview of the City of Philadelphia's basic financial statements. The city's basic financial statements are comprised of:

- Government-wide financial statements which provide both long-term and short-term information about the city's overall financial condition.
- Fund financial statements which provide a more detailed look at major individual portions, or funds, of the city.
- Notes to the financial statements which explain some of the information contained in the financial statements and provide more detailed data.
- Other supplementary information which further explains and supports the information in the financial statements.

- **Government-wide financial statements.** The government-wide financial statements report information about the city as a whole using accounting methods similar to those used by a private-sector business. The two statements presented are:

The *statement of net position* which includes all of the city's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net assets are an indicator of whether the city's financial position is improving or deteriorating.

The *statement of activities* presents revenues and expenses and their effect on the change in the city's net position during the current fiscal year. These changes in net position are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

The government-wide financial statements of the city are reflected in three distinct categories:

▪*Governmental activities* are primarily supported by taxes and state and federal grants. The governmental activities include general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; streets, highways and sanitation; and the financing activities of the city's two blended component units - the Pennsylvania Intergovernmental Cooperation Authority and Philadelphia Municipal Authority.

▪*Business-type activities* are supported by user fees and charges which are intended to recover all or a significant portion of their costs. The city's water and waste water systems, airport and industrial land bank are all included as business type activities.

These two activities comprise the primary government of Philadelphia.

▪*Component units* are legally separate entities for which the City of Philadelphia is financially accountable or has oversight responsibility. Financial information for these component units is reported separately from the financial information presented for the primary government. The city's government-wide financial statements contain eight distinct component units; the Philadelphia School District, Community College of Philadelphia, Community Behavioral Health, Gas Works, Parking Authority, Delaware River Waterfront Corporation, Philadelphia Authority for Industrial Development and the Redevelopment Authority.

**Fund financial statements.** The fund financial statements provide detailed information about the city's most significant funds, not the city as a whole. Funds are groupings of activities that enable the city to maintain control over resources that have been segregated for particular purposes or objectives. All of the funds of the City of Philadelphia can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

•***Governmental funds.*** The governmental funds are used to account for the financial activity of the city's basic services, similar to those described for the governmental activities in the government-wide financial statements. However, unlike the government-wide statements which provide a long-term focus of the city, the fund financial statements focus on a short term view of the inflows and outflows of expendable resources, as well as on the balances of expendable resources available at the end of the fiscal year. The financial information presented for the governmental funds are useful in evaluating the city's short term financing requirements.

To help the readers of the financial statements better understand the relationships and differences between the long term view of the government-wide financial statements from the short term view of the fund financial statements, reconciliations are presented between the fund financial statements and the government-wide statements.

The city maintains twenty-two individual governmental funds. Financial information is presented separately for the general fund, grants revenue fund and health choices behavioral health fund, which are considered to be major funds. Data for the remaining nineteen are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is presented in the form of combining statements in the supplementary information section of this financial report.

•***Proprietary funds.*** The proprietary funds are used to account for the financial activity of the city's operations for which customers are charged a user fee; they provide both a long and short term view of financial information. The city maintains three enterprise funds which are a type of proprietary funds - the airport, water and waste water operations, and industrial land bank. These enterprise funds are the same as the business-type activities in the government-wide financial statements, but they provide more detail and additional information, such as cash flows.

•***Fiduciary funds.*** The City of Philadelphia is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for the Gas Works' employees' retirement reserve assets. Both of these fiduciary activities are reported in separate *statements of fiduciary net assets* and *changes in fiduciary net assets.* They are not reflected in the government-wide financial statements because the assets are not available to support the city's operations.

The following chart summarizes the various components of the city's government-wide and fund financial statements, including the portion of the city government they cover, and the type of information they contain.

**Summary of the City of Philadelphia's Government-wide and Fund Financial Statements**

| | | Fund Statements | | |
|---|---|---|---|---|
| | **Government-wide Statements** | **Governmental Funds** | **Proprietary Funds** | **Fiduciary Funds** |
| ***Scope*** | Entire city government (except fiduciary funds) and city's component units | Activities of the city that are not proprietary or fiduciary in nature, such as fire, police, refuse collection | Activities the city operates similar to private businesses. Airports, water/waste water system & the land bank. | Activities for which the city is trustee for someone else's assets, such as the employees' pension plan |
| ***Required Financial Statements*** | Statement of Net Position<br>Statement of Activities | Balance Sheet<br>Statement of Revenues, Expenditures and Changes in Fund Balances | Statement of Net Position<br>Statement of Revenues, Expenses and Changes in Net Position<br>Statement of Cash Flows | Statement of Fiduciary Net Position<br>Statement of Changes in Fiduciary Net Position |
| ***Accounting basis/ measurement focus*** | Accrual accounting<br>Economic resources | Modified accrual accounting<br>Current financial resources | Accrual accounting<br>Economic resources | Accrual accounting<br>Economic resources |
| ***Type of asset, liability and deferred inflow/outflow of resources*** | All assets, liabilities, deferred inflow/outflow of resources, financial and capital, short and long term | Only assets expected to be used up and liabilities and deferred inflows of resources that come due during the current year or soon thereafter; no capital assets are included | All assets, liabilities, deferred inflow/outflow of resources, financial and capital, short and long term | All assets and liabilities, both short and long term; there are currently no capital assets, although there could be in the future |
| ***Type of inflow and outflow information*** | All revenues and expenses during the year, regardless of when cash is received or paid | Only revenues for which cash is received during the year or soon after the end of the year; only expenditures when goods or services are received and payment is due during the year or soon thereafter. | All revenues and expenses during the year, regardless of when cash is received or paid | All revenues and expenses during the year, regardless of when cash is received or paid |

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes can be found immediately following the basic financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents additional information in three separate sections: *required supplementary information, supplementary information and statistical information.*

• ***Required supplementary information.*** Certain information regarding pension plan funding progress for the city and its component units, as well as budgeted and actual revenues, expenditures and encumbrances for the city's major governmental funds is presented in this section. This required supplementary information can be found immediately following the notes to the financial statements.

• ***Supplementary information.*** Combining statements for non-major governmental and fiduciary funds, as well as additional budgetary schedules for the city's governmental and proprietary funds are presented in this section. This supplementary information can be found immediately following the required supplementary information.

• ***Statistical information.*** Long term trend tables of financial, economic, demographic and operating data are presented in the statistical section. This information is located immediately after the supplementary information.

## Government-wide Financial Analysis

**Net position.** As noted earlier, net positions are useful indicators of a government's financial position. At the close of the current fiscal year, the City of Philadelphia's assets & deferred outflows exceeded its liabilities by $15.2 million.

Capital assets (land, buildings, roads, bridges and equipment), less any outstanding debt issued to acquire these assets, comprise a large portion of the City of Philadelphia's net position, $1,215.0 million. Although these capital assets assist the city in providing services to its citizens, they are generally not available to fund the operations of future periods.

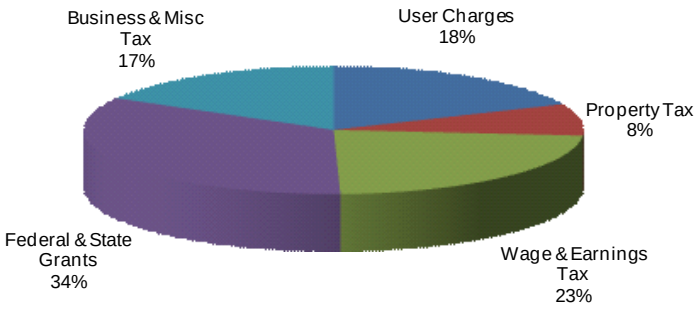
A portion of the city's net position, $1,215.7 million, are subject to external restrictions as to how they may be used. The remaining component of net position is unrestricted. Unrestricted net position ended the fiscal year with a deficit of $2,415.5 million. The governmental activities reported negative *unrestricted net position* of $2,588.9 million. The business type activities reported an unrestricted net assets surplus of $173.4 million. Any deficits will have to be funded from future revenues.

Following is a comparative summary of the city's assets, liabilities and net position:

***City of Philadelphia's Net Position***
*(millions of USD)*

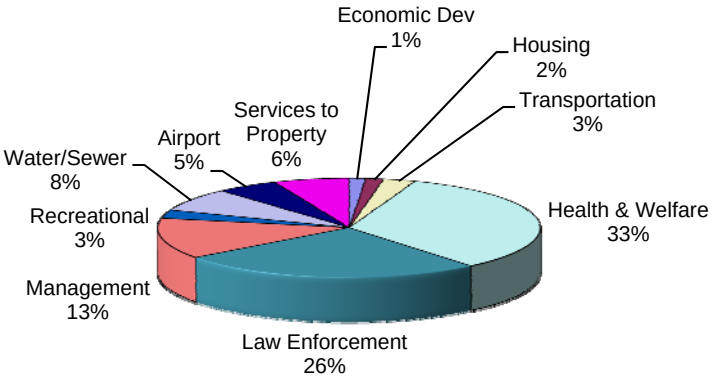
| | Governmental Activities | | % | Business-type Activities | | % | Total Primary Government | | % |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | Change | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Current and other assets | 1,956.1 | 1,967.6 | -0.58% | 1,320.3 | 1,530.6 | -13.74% | 3,276.4 | 3,498.2 | -6.34% |
| Capital assets | 2,249.3 | 2,200.3 | 2.23% | 3,824.4 | 3,706.5 | 3.18% | 6,073.7 | 5,906.8 | 2.83% |
| **Total assets** | **4,205.4** | **4,167.9** | 0.90% | **5,144.7** | **5,237.1** | -1.76% | **9,350.1** | **9,405.0** | -0.58% |
| **Deferred Outflows** | 121.2 | - | | 105.8 | - | | 227.0 | - | |
| Long-term liabilities | 5,205.4 | 5,049.9 | 3.08% | 3,253.0 | 3,271.4 | -0.56% | 8,458.4 | 8,321.3 | 1.65% |
| Other liabilities | 890.7 | 890.5 | 0.02% | 212.8 | 228.1 | -6.71% | 1,103.5 | 1,118.6 | -1.35% |
| **Total liabilities** | **6,096.1** | **5,940.4** | 2.62% | **3,465.8** | **3,499.5** | -0.96% | **9,561.9** | **9,439.9** | 1.29% |
| **Deferred Inflows** | - | - | | - | - | | | | |
| **Net Position:** | | | | | | | | | |
| Net Investment in capital assets | 232.5 | 83.9 | 177.12% | 982.5 | 887.8 | 10.67% | 1,215.0 | 971.7 | 25.04% |
| Restricted | 586.9 | 621.9 | -5.63% | 628.8 | 591.8 | 6.25% | 1,215.7 | 1,213.7 | 0.16% |
| Unrestricted | (2,588.9) | (2,478.2) | -4.47% | 173.4 | 257.9 | -32.76% | (2,415.5) | (2,220.3) | -8.79% |
| **Total Net Position** | **(1,769.5)** | **(1,772.4)** | 0.16% | **1,784.7** | **1,737.5** | 2.72% | **15.2** | **(34.9)** | -143.55% |

**Changes in net position.** The city's total revenues this year, $6,939.2 million, exceeded total costs of $6,800.0 million by $139.2 million. Approximately 48% of all revenue came from wage and earnings taxes, property taxes, business and miscellaneous taxes. State, Federal and local grants account for another 34%, and the remaining 18% of the revenue coming from user charges, fines, fees and various other sources. The City's expenses cover a wide range of services, of which approximately 65% are related to the health, welfare and safety of the general public.



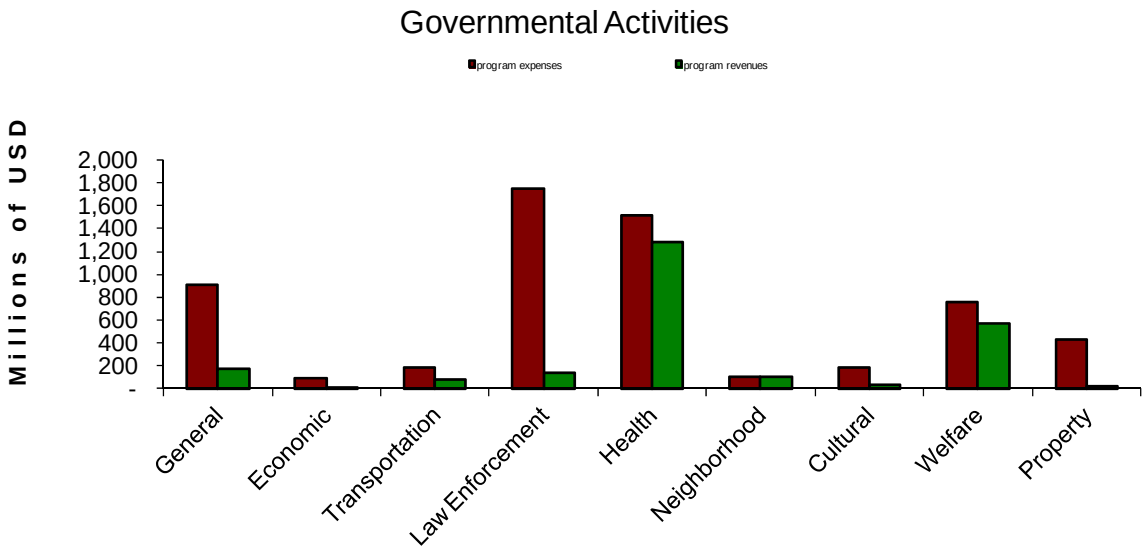

Overall, net position for the city increased by $139.2 million. Total revenues increased by $88.1 million, total expenses increased by $37.4 million over last year. This resulted in the Change in Net Position being $50.7 million higher than in the previous year. Net positions were decreased by $116.9 million from Operating Grants and Contributions, $27.8 million from Capital Grants and Contributions, and $11.7 million from Unrestricted Interest; and, increased by $45.4 million from Charges for Services, $47.0 million for Wage and Earning taxes, $53.0 million from Property taxes, $95.5 million from Other Taxes and $3.6 million from Unrestricted grants and contributions.

Expense increased by $37.4 million with increases of $114.7 million for General Management; $22.6 million in Water and Waste Water, $15.8 million in Airport, and $0.5 in Industrial Land Bank; and, decreases of $8.9 million in Judiciary and Law Enforcement, $5.7 million in Transportation, $34.0 million in Conservation of Health, $34.8 million in Housing and Neighborhood Development, $18.6 million in Improvement in General Welfare, $11.9 million in Services to Taxpayer Property and $2.3 million in Economic Development.



## Governmental Activities

The governmental activities of the City resulted in a $17.6 million increase in net position. The following chart reflects program expenses and program revenue. The difference (net cost) must be funded by Taxes, Grants & Contributions and Other revenues.




The following table summarizes the city's most significant governmental programs. Costs, program revenues and net cost are shown in the table. The net cost shows the financial burden that was placed on the city's taxpayers by each of these functions.

| *(millions of USD)* | Program Costs | | % | Program Revenues | | % | Net Cost | | % |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | Change | 2013 | 2012 | Change | 2013 | 2012 | Change |
| General Welfare | 757.7 | 776.3 | -2.4% | 569.7 | 520.8 | 9.4% | 188.0 | 255.5 | -26.4% |
| Judiciary & Law Enforcement | 1,748.2 | 1,757.1 | -0.5% | 138.4 | 139.9 | -1.1% | 1,609.8 | 1,617.2 | -0.5% |
| Public Health | 1,514.5 | 1,548.5 | -2.2% | 1,284.6 | 1,293.2 | -0.7% | 229.9 | 255.3 | -9.9% |
| General Governmental | 905.2 | 790.5 | 14.5% | 174.0 | 262.0 | -33.6% | 731.2 | 528.5 | 38.4% |
| Services to Property | 433.5 | 445.4 | -2.7% | 21.4 | 20.3 | 5.4% | 412.1 | 425.1 | -3.1% |
| Housing, Economic & Cultural | 568.0 | 610.9 | -7.0% | 219.1 | 274.2 | -20.1% | 348.9 | 336.7 | 3.6% |
| | **5,927.1** | **5,928.7** | 0.0% | **2,407.2** | **2,510.4** | -4.1% | **3,519.9** | **3,418.3** | 3.0% |

The cost of all governmental activities this year was $5,927.1 million; the amount that taxpayers paid for these programs through tax payments was $3,310.9 million. The federal and state governments and other charitable organizations subsidized certain programs with grants and contributions in the amount of $2,035.3 million while those who benefited from the programs paid $371.9 million through fees and charges. Unrestricted grants and contributions and other general types of revenues accounted for the balance of revenues in the amount of $226.6 million. The difference of $17.6 million is available to fund future commitments.

The following table shows a more detailed breakdown of program costs and related revenues for both the governmental and business-type activities of the city:

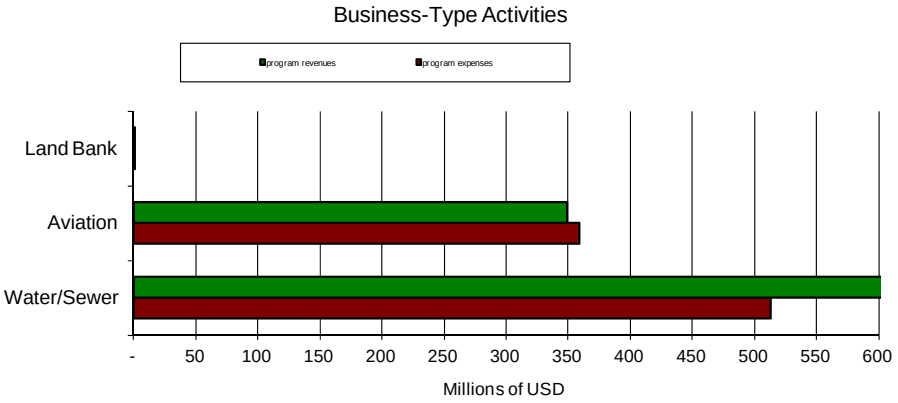
***City of Philadelphia-Net Position***

| *(millions of USD)* | Governmental Activities | | Business-type Activities | | Total | | % |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | Change |
| **Revenues:** | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | 371.9 | 365.1 | 900.5 | 861.8 | 1,272.4 | 1,226.9 | 3.7% |
| Operating grants and contributions | 1,986.4 | 2,102.1 | 2.3 | 3.5 | 1,988.7 | 2,105.6 | -5.6% |
| Capital grants and contributions | 48.9 | 43.2 | 58.2 | 91.7 | 107.1 | 134.9 | -20.6% |
| General revenues: | | | | | | | |
| Wage and earnings taxes | 1,598.7 | 1,551.7 | - | - | 1,598.7 | 1,551.7 | 3.0% |
| Property taxes | 553.8 | 500.8 | - | - | 553.8 | 500.8 | 10.6% |
| Other taxes | 1,158.4 | 1,062.9 | - | - | 1,158.4 | 1,062.9 | 9.0% |
| Unrestricted grants and contributions | 187.4 | 223.1 | 42.2 | 2.9 | 229.6 | 226.0 | 1.6% |
| Unrestricted Interest | 17.9 | 33.3 | 12.7 | 9.0 | 30.6 | 42.3 | -27.6% |
| **Total revenues** | **5,923.3** | **5,882.2** | **1,015.9** | **968.9** | **6,939.2** | **6,851.1** | 1.3% |
| **Expenses:** | | | | | | | |
| Economic development | 94.2 | 96.5 | - | - | 94.2 | 96.5 | -2.4% |
| Transportation | 183.9 | 189.6 | - | - | 183.9 | 189.6 | -3.0% |
| Judiciary & law enforcement | 1,748.2 | 1,757.1 | - | - | 1,748.2 | 1,757.1 | -0.5% |
| Conservation of health | 1,514.5 | 1,548.5 | - | - | 1,514.5 | 1,548.5 | -2.2% |
| Housing & neighborhood development | 102.9 | 137.7 | - | - | 102.9 | 137.7 | -25.3% |
| Cultural & recreational | 187.0 | 187.1 | - | - | 187.0 | 187.1 | -0.1% |
| Improvement of the general welfare | 757.7 | 776.3 | - | - | 757.7 | 776.3 | -2.4% |
| Services to taxpayer property | 433.5 | 445.4 | - | - | 433.5 | 445.4 | -2.7% |
| General management | 743.4 | 678.4 | - | - | 743.4 | 678.4 | 9.6% |
| Interest on long term debt | 161.8 | 112.1 | - | - | 161.8 | 112.1 | 44.3% |
| Water & waste water | - | - | 513.4 | 490.8 | 513.4 | 490.8 | 4.6% |
| Airport | - | - | 358.9 | 343.1 | 358.9 | 343.1 | 4.6% |
| Industrial land bank | - | - | 0.6 | - | 0.6 | - | 0.0% |
| **Total expenses** | **5,927.1** | **5,928.7** | **872.9** | **833.9** | **6,800.0** | **6,762.6** | 0.6% |
| Increase (decrease) in net assets before transfers & special items | (3.8) | (46.5) | 143.0 | 135.0 | 139.2 | 88.5 | |
| Transfers | 21.4 | 27.5 | (21.4) | (27.5) | - | - | |
| **Increase (decrease) in Net Position** | **17.6** | **(19.0)** | **121.6** | **107.5** | **139.2** | **88.5** | |
| Net Position - Beginning | (1,772.5) | (1,753.4) | 1,737.5 | 1,630.0 | (35.0) | (123.4) | -71.6% |
| Adjustment | (14.6) | - | (74.4) | - | (89.0) | - | |
| **Net Position - End** | **(1,769.5)** | **(1,772.4)** | **1,784.7** | **1,737.5** | **15.2** | **(34.9)** | -143.7% |

## Business-type Activities

Business-type activities caused the city's net position to increase by $121.6 million. This increase was comprised of an increase in net position for water/wastewater of $89.1 million, an increase to aviation of $32.6 million and a decrease for industrial & commercial development operations of $0.1 million. Some of the key reasons for these changes are:

- Increased airport rental concession income and a reduction in Other Expenses, in the Aviation Fund.
- Increased user related charges and increased Interest Income, decreased Debt Service Interest and decreased Other Expenses, in the Water Fund.

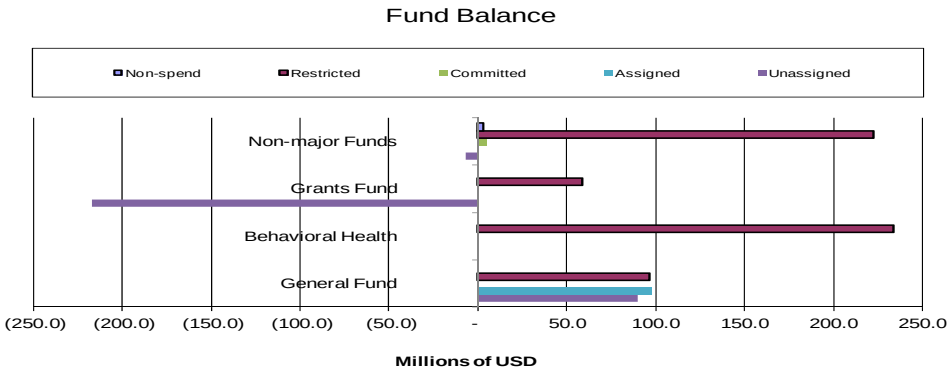



## Financial Analysis of the Government's Funds

***Governmental funds*.** The purpose of the city's governmental funds is to provide financial information on the *short term inflow, outflow and balance* of resources. This information is useful in assessing the city's ability to meet its near-term financing requirements. *Unassigned fund balance* serves as a useful measure of the city's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year the city's governmental funds reported a *combined fund balance* of $582.5 million, an increase of $35.8 million over last year. Of the total fund balance, $2.8 million represents *nonspendable fund balance* for amounts that cannot be spent. In addition, $610.9 million represents *restricted fund balance* due to externally imposed constraints by outside parties, or law, to: revitalize neighborhoods ($34.2 million); pay debt service ($81.5 million); support programs funded by independent agencies ($33.9 million); fund a portion of the city's managed care programs ($233.7 million); fund a portion of new sports stadiums ($8.9 million); fund the 9-1-1 emergency phone system ($24.5 million); fund a portion of the central library renovation project ($2.3 million), pay for a portion of the cultural and commercial corridor project ($12.2 million), pay pension obligation bonds interest ($79.8); and trusts ($8.9 million); fund economic development programs ($7.2 million); improve streets and highways ($23.9 million); fund housing and neighborhood development ($15.0 million); provide health services ($15.2 million); preserve parks, libraries and museums ($0.5 million); and support capital projects ($29.2 million). The fund balance is further broken down as to *committed fund balance* for Prisons ($4.4 million) and Parks and Recreation ($0.7 million). The difference between the non-spendable, restricted, committed, assigned and combined fund balance is a deficit of $134.4 million which constitutes *unassigned fund balance,* this deficit must be funded by future budgets.

The general fund, the primary operating fund of the city, reported *assigned fund balance* of $98.0 million and *unassigned fund balance* of $90.0 million at the end of the fiscal year.



Overall, the total fund balance of the general fund increased by $195.7 million during the current fiscal year. This increase was due to an excess of revenues and other financing sources over expenditures, for the fiscal year. Some of the key factors contributing to this change are:

Revenue:

- An increase of $161.9 in tax revenue due to increased collections for Wage & Earnings Tax, Real Property Tax, Business Income & Receipts Tax, and Real Property Transfer Tax.
- An increase resulting from issuance of debt for $87.8 million.

Expenditures:

- Expenditures for the year increased $95.1 million, an increase of only 2.9%.

The Health Choices Behavioral Health fund ended the fiscal year with a total fund balance of $233.7 million, the entire amount million is reserved for a contractually required equity reserve and reinvestment initiatives. The total fund balance increased during the fiscal year by $3.0 million.

The Grants Revenue fund has a total fund balance deficit of $158.4 million which is comprised of a positive restricted fund balance of $58.7 million (earmarked for neighborhood revitalization for $34.2 million and emergency telephone system programs for $24.5 million) and a deficit unassigned fund balance of $217.1 million. Because most programs accounted for in the grants revenue fund are reimbursement based, it is not unusual for the grants revenue fund to end the fiscal year with a deficit unassigned fund balance. The overall fund balance of the grants revenue fund experienced a decrease of $64.5 million during the current fiscal year due primarily to the Act 148 program being included in this fund beginning with fiscal year 2012.

***Proprietary funds*.** The city's proprietary funds provide the same type of financial information found in the government-wide financial statements, but in slightly more detail. The *total net position* of the proprietary funds increased by $121.6 million during the current fiscal year. This overall increase is attributable to the water/wastewater system which had an increase of $89.1 million, airport operations which experienced an increase of $32.6 million, while industrial & commercial development operations experienced a decrease of $0.1 million.

The proprietary funds reported an *unrestricted nets position* surplus of $173.4 million, comprised of $74.6 million for the water and waste water operations, $79.1 million for the airport and $19.7 million for the industrial & commercial development activities. These unrestricted net position represent an overall decrease of $84.5 million over the previous year, comprised of a decrease of $107.6 million for the water and waste water operations, a decrease of $.1 million for the Land Bank; and, an increase of $23.2 million for the airport.

## General Fund Budgetary Highlights

The following table shows the General Fund's year end fund balance for the five most recent years:

(millions of USD)

| General Fund at June 30…. | Fund Balance Available for Appropriation | Increase (Decrease) |
|---|---|---|
| 2013 | 256.9 | 110.1 |
| 2012 | 146.8 | 146.7 |
| 2011 | 0.1 | 114.1 |
| 2010 | (114.0) | 23.2 |
| 2009 | (137.2) | (256.7) |

Differences between the original budget and the final amended budget resulted primarily from decreases in revenue estimates and increases to appropriations. These increases were required to support the following activities:

- $22.8 million for Office of the Director of Finance Contributions
- $ 8.5 million for Office of the Director of Finance for Employee Benefits
- $15.1 million for Police personal services
- $ 9.6 million for Fire personal services
- $11.5 million for Prisons personal services

The general fund's budgetary fund balance surplus of $256.9 million differs from the general fund's fund financial statement unassigned fund balance of $90.0 million by $166.9 million, which represents the unearned portion of the business income & receipts tax of $166.9 million. Business income & receipts tax is received prior to being earned but have no effect on budgeted cash receipts.

## Capital Asset and Debt Administration

**Capital assets.** The City of Philadelphia's investment in capital assets for its governmental and business-type activities amounts to $6.1 billion, net of accumulated depreciation, at the end of the current fiscal year. These capital assets include items such as roads, runways, bridges, water and sewer mains, streets and street lighting, land, buildings, improvements, sports stadiums, vehicles, commuter trains, machinery, computers and general office equipment. Major capital asset events for which capital expenditures have been incurred during the current fiscal year include the following:

- Water and Wastewater Improvements of $102.5 million
- Infrastructure improvements for Streets, Highways and Bridges $63.9 million
- Airport terminal and airfield improvements in the amount of $149.6 million.
- City Hall and Municipal Buildings renovations in the amount of $3.6 million.
- Ben Franklin Parkway improvements $4.5 million
- Commuter and Transit System improvements $3.9 million
- Computers, Servers and IT Infrastructure in the amount of $7.9 million

The following table shows the capital assets by category.

***City of Philadelphia's Capital Assets-Net of Depreciation***

*(millions of USD)*

| | Governmental activities | | Inc | Business-type activities | | Inc | Total | | Inc |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Dec) | 2013 | 2012 | (Dec) | 2013 | 2012 | (Dec) |
| Land | 787.1 | 779.1 | 8.0 | 152.2 | 125.9 | 26.3 | 939.3 | 905.0 | 34.3 |
| Fine Arts | 1.0 | 1.0 | - | 0.0 | 0.0 | - | 1.0 | 1.0 | - |
| Buildings | 772.1 | 679.1 | 93.0 | 1,469.0 | 1,532.8 | (63.8) | 2,241.1 | 2,211.9 | 29.2 |
| Improvements other than buildings | 94.0 | 96.0 | (2.0) | 121.0 | 121.0 | - | 215.0 | 217.0 | (2.0) |
| Machinery & equipment | 70.0 | 78.0 | (8.0) | 24.0 | 24.0 | - | 94.0 | 102.0 | (8.0) |
| Infrastructure | 424.1 | 395.1 | 29.0 | 1,353.2 | 1,313.8 | 39.4 | 1,777.3 | 1,708.9 | 68.4 |
| Construction in progress | 29.0 | 96.0 | (67.0) | 698.0 | 582.0 | 116.0 | 727.0 | 678.0 | 49.0 |
| Transit | 72.0 | 76.0 | (4.0) | 0.0 | 0.0 | - | 72.0 | 76.0 | (4.0) |
| Intangible Assets | 0.0 | 0.0 | - | 7.0 | 7.0 | - | 7.0 | 7.0 | - |
| **Total** | **2,249.3** | **2,200.3** | **49.0** | **3,824.4** | **3,706.5** | **117.9** | **6,073.7** | **5,906.8** | **166.9** |

The city's governmental activities experienced an overall increase in capital assets of $49.0 million (net of accumulated depreciation) during the current fiscal year. During the fiscal year there were increases in:

land ($8.0 million); buildings ($93.0 million); and infrastructure ($29.0 million); that were offset by decreases in equipment ($8.0 million); construction in progress ($67.0 million); transit ($4.0 million) and other improvements ($2.0 million).

More detailed information about the city's capital assets can be found in notes I.6 & III.5 to the financial statements.

**Long-term debt.** At year end the city had $8.5 billion in long term debt outstanding. Of this amount, $5.2 billion represents bonds outstanding (comprised of $2.0 billion of debt backed by the full faith and credit of the city, and $3.2 billion of debt secured solely by specific revenue sources) while $3.3 billion represents other long term obligations. The following schedule shows a summary of all long term debt outstanding.

***City of Philadelphia's Long Term Debt Outstanding***

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| *(millions of USD)* | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| **Bonds Outstanding:** | | | | | | |
| General obligation bonds | 1,986.2 | 2,039.5 | - | - | 1,986.2 | 2,039.5 |
| Revenue bonds | - | - | 3,185.8 | 3,203.0 | 3,185.8 | 3,203.0 |
| **Total Bonds Outstanding** | **1,986.2** | **2,039.5** | **3,185.8** | **3,203.0** | **5,172.0** | **5,242.5** |
| **Other Long Term Obligations:** | | | | | | |
| Service agreements | 2,293.7 | 2,103.6 | - | - | 2,293.7 | 2,103.6 |
| Employee related obligations | 833.2 | 814.5 | 62.1 | 61.1 | 895.3 | 875.6 |
| Indemnities | 63.4 | 51.6 | 4.8 | 7.0 | 68.2 | 58.6 |
| Leases | 28.9 | 40.7 | - | - | 28.9 | 40.7 |
| Other | - | - | 0.3 | 0.3 | 0.3 | 0.3 |
| **Total Other Long Term Obligations** | **3,219.2** | **3,010.4** | **67.2** | **68.4** | **3,286.4** | **3,078.8** |
| **Total Long Term Debt Outstanding** | **5,205.4** | **5,049.9** | **3,253.0** | **3,271.4** | **8,458.4** | **8,321.3** |

Significant events related to borrowing during the current fiscal year include the following:

- The City has statutory authorizations to negotiate temporary loans for periods not to extend beyond the fiscal year. The City borrows funds to pay debt service and required pension contributions due before the receipt of the real estate taxes. The City borrowed and repaid $127.0 million in Tax and Revenue Anticipation Notes by June 2013 plus interest. In accordance with statute there are no temporary loans outstanding at year end.

- Effective March 1, 2013 the city remarketed the General Obligation Multi-Modal Refunding Bonds, Series 2009B ($100.0 million), and entered into a letter of credit substitution with the Royal Bank of Canada (RBC). The 2009B Bonds are also payable from the proceeds of funds drawn by the U.S. Bank National Association, as fiscal agent, under an irrevocable, direct-pay letter of credit, issued by RBC. The Letter of Credit (LOC) will permit the fiscal agent to draw up to $101.1 million for principal and unpaid interest on the 2009B bonds and will expire on March 7, 2016, unless earlier cancelled, terminated

or renewed. The LOC will constitute both a Credit Facility and Credit Provider and RBC a Liquidity Facility and Liquidity Provider for the 2009B bonds.

- In Fiscal Year 2013, the serial bonds ($65.1 million) for PMA were reclassified to term bonds. This reclassification supports PMA's debt presentation.

- In November 2012, the City issued Water and Wastewater Revenue Refunding Bonds, Series 2012. The bonds were issued in the amount of $70.4 million with interest rates ranging from 1% to 5% and have a maturity date of 2028. The plan is to refund all of the City's outstanding Water and Wastewater Revenue Bonds, Series 2001A and Series 2001B maturing after November 1, 2012 and pay the costs of issuance related to the Bonds.

- In July 2010, the City of Philadelphia Water Department received approval from the Pennsylvania State Infrastructure Financing Authority ("PENNVEST") for the Green Infrastructure Project (Series 2010B), bringing the total financing from PENNVEST to $214.9 million. During fiscal year 2013, PENNVEST drawdowns totaled $15.4 million. The funding is through low interest loans of 1.193% during the construction period and for the first five years of amortization (interest only payment are due during the construction period up to three years) and 2.107% for the remaining fifteen years.

Currently the city's bonds as rated by Moody's, Standard & Poor's and Fitch are as follows:

| Bond Type | Moody's Investor Service | Standard & Poor's Corporation | Fitch Ratings, Inc. |
|---|---|---|---|
| General Obligation Bonds | A2 | A+ | A- |
| Water Revenue Bonds | A1 | A | A+ |
| Aviation Revenue Bonds | A2 | A+ | A |

The City is subject to a statutory limitation established by the Commonwealth of Pennsylvania as to the amount of tax supported general obligation debt it may issue. The limitation is equal to 13% of the average assessed valuations of properties over the past ten years. As of June 30, 2013 the legal debt limit was $1,670.0 million. There is $1,617.9 million of outstanding tax supported debt leaving a legal debt margin of $52.1 million.

More detailed information about the city's debt activity can be found in note III.7 to the financial statements.

## Economic Factors and Next Year's Budgets and Rates

The following factors have been considered in preparing the City of Philadelphia's budget for the 2014 fiscal year:

- Philadelphia entered FY14 with a fund balance of $256.9 million. For FY 2014 Wage and Earnings Tax revenue are projected to grow 1.6%, SalesTax revenue are projected to grow by 3.3% and Real Estate transfer tax is projected to grow by 8.5%, while the Business Income and Receipts tax is projected to grow by 3.0%.

- Due to the larger than expected FY 13 fund balance, the city withdrew its appeal of the 2012 IAFF award. In FY 14 the city paid $96.8 million to the IAFF ($47.5 million for wages and $49.3 million for health care costs) to honor the contract.

- The current five year plan (FY 2014 to 2018) includes a resumption of the wage and business tax cuts in FY 2014, previously suspended in the FY 2010 plan.

- Union contracts for District Council 33, District Council 47 and the International Association of fire Fighters are currently unresolved. Funds have been set aside in the FY 14 budget and the FY 14 – FY 18 Five Year Plan as a reserve for the costs of these agreements in the future.

- To control rising pension plan costs the city introduced a new hybrid pension plan that contains both a defined benefit and a voluntary defined contribution component. Uniformed employees not electing to participate in the hybrid plan must increase their pension contribution percentage.

- The country entered its most recent recession in December 2007. It was the longest recession in the post-WWII period.

- Recovery from the current recession has been slow. Philadelphia's recovery, like that of other local governments, is expected to take longer than the nation due to high urban unemployment and lagging tax revenue collections.

## Requests for information

The Comprehensive Annual Financial Report is designed to provide a general overview of the City of Philadelphia's finances for all interested parties. The City also publishes the *Supplemental Report of Revenues & Obligations* that provides a detailed look at budgetary activity at the legal level of compliance, the *Annual Report of Bonded Indebtedness* that details outstanding long term debt and the *Schedule of Financial Assistance* that reports on grant activity. All four reports are available on the City's website, *www.phila.gov/finance*. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Director of Finance
Suite 1340 MSB
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

SEAL OF THE CITY OF PHILADELPHIA
PHILADELPHIA
MANETO

# City of Philadelphia
PENNSYLVANIA

# Basic Financial Statements

**City of Philadelphia**
**Statement of Net Position**
**June 30, 2013**

**Exhibit I**

*Amounts in thousands of USD*

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business Type Activities | Total | Component Units |
| **Assets** | | | | |
| Cash on Deposit and on Hand | 68,509 | 30 | 68,539 | 317,023 |
| Equity in Pooled Cash and Investments | - | - | - | 93,648 |
| Equity in Treasurer's Account | 815,154 | 179,701 | 994,855 | - |
| Investments | 89,254 | - | 89,254 | 50,676 |
| Due from Component Units | 51,776 | - | 51,776 | - |
| Due from Primary Government | - | - | - | 57,067 |
| Amounts Held by Fiscal Agent | 119,303 | - | 119,303 | 98,113 |
| Notes Receivable - Net | - | - | - | 29,235 |
| Accounts Receivable - Net | 348,309 | 161,897 | 510,206 | 324,149 |
| Interest and Dividends Receivable | 1,121 | - | 1,121 | 22,184 |
| Due from Other Governments - Net | 444,240 | 940 | 445,180 | 127,476 |
| Inventories | 15,805 | 31,094 | 46,899 | 114,660 |
| Other Assets | 2,677 | - | 2,677 | 254,128 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | - | 300,388 | 300,388 | 135,953 |
| Other Assets | - | 646,289 | 646,289 | 230,101 |
| Capital Assets: | | | | |
| Land and Other Non-Depreciated Assets | 797,552 | 849,397 | 1,646,949 | 277,258 |
| Other Capital Assets (Net of Depreciation) | 1,451,732 | 2,974,980 | 4,426,712 | 3,237,792 |
| Total Capital Assets, Net | 2,249,284 | 3,824,377 | 6,073,661 | 3,515,050 |
| Total Assets | 4,205,432 | 5,144,716 | 9,350,148 | 5,369,463 |
| **Deferred Outflows of Resources** | 121,198 | 105,762 | 226,960 | - |
| **Liabilities** | | | | |
| Notes Payable | - | 39,600 | 39,600 | 113,837 |
| Vouchers Payable | 58,730 | 8,379 | 67,109 | 73,247 |
| Accounts Payable | 189,514 | 76,271 | 265,785 | 105,080 |
| Salaries and Wages Payable | 55,507 | 5,756 | 61,263 | 77,635 |
| Accrued Expenses | 42,401 | 27,708 | 70,109 | 278,522 |
| Due to Agency Funds | 700 | - | 700 | - |
| Due to Primary Government | - | - | - | 43,273 |
| Due to Component Units | 50,177 | - | 50,177 | - |
| Funds Held in Escrow | 37,010 | 1,902 | 38,912 | 12,478 |
| Due to Other Governments | - | - | - | 34,267 |
| Unearned Revenue | 267,974 | 22,739 | 290,713 | 157,154 |
| Overpayment of Taxes | 120,255 | - | 120,255 | 9,273 |
| Other Current Liabilities | - | - | - | 131,073 |
| Derivative Instrument Liability | 68,429 | 31,381 | 99,810 | 23,951 |
| Non-Current Liabilities: | | | | |
| Due within one year | 443,974 | 186,682 | 630,656 | 330,543 |
| Due in more than one year | 4,761,465 | 3,065,357 | 7,826,822 | 4,859,911 |
| Total Liabilities | 6,096,136 | 3,465,775 | 9,561,911 | 6,250,244 |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 232,508 | 982,475 | 1,214,983 | 68,648 |
| Restricted For: | | | | |
| Capital Projects | 29,231 | 172,863 | 202,094 | 3,318 |
| Debt Service | 80,569 | 294,502 | 375,071 | 223,000 |
| Pension Oblig Bond Refunding Reserve | 79,743 | - | 79,743 | 18,375 |
| Behavioral Health | 233,724 | - | 233,724 | - |
| Neighborhood Revitalization | 34,218 | - | 34,218 | - |
| Stadium Financing | 2,096 | - | 2,096 | - |
| Central Library Project | 2,331 | - | 2,331 | - |
| Cultural & Commercial Corridor Project | 12,175 | - | 12,175 | - |
| Grant Programs | 53,726 | - | 53,726 | 30,203 |
| Rate Stabilization | - | 161,464 | 161,464 | - |
| Libraries & Parks: | | | | |
| Expendable | 3,109 | - | 3,109 | - |
| Non-Expendable | 2,633 | - | 2,633 | - |
| Educational Programs | - | - | - | 13,862 |
| Other | 53,337 | - | 53,337 | 266 |
| Unrestricted(Deficit) | (2,588,906) | 173,399 | (2,415,507) | (1,238,453) |
| Total Net Position | (1,769,506) | 1,784,703 | 15,197 | (880,781) |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia**
**Statement of Activities**
**For the Fiscal Year Ended June 30, 2013**

**Exhibit II**

*Amounts in thousands of USD*

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | |
| **Functions** | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business Type Activities | Total | Component Units |
| **Primary Government:** | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| Economic Development | 94,202 | 2,565 | 2,021 | 2,000 | (87,616) | | (87,616) | |
| Transportation: | | | | | | | | |
| Streets & Highways | 112,891 | 5,268 | 34,100 | 42,494 | (31,029) | | (31,029) | |
| Mass Transit | 71,048 | 1,853 | 253 | - | (68,942) | | (68,942) | |
| Judiciary and Law Enforcement: | | | | | | | | |
| Police | 1,087,927 | 6,322 | 12,783 | - | (1,068,822) | | (1,068,822) | |
| Prisons | 342,153 | 687 | 21 | - | (341,445) | | (341,445) | |
| Courts | 318,077 | 59,956 | 58,650 | - | (199,471) | | (199,471) | |
| Conservation of Health: | | | | | | | | |
| Emergency Medical Services | 49,668 | 33,345 | 718 | - | (15,605) | | (15,605) | |
| Health Services | 1,464,882 | 16,653 | 1,233,877 | - | (214,352) | | (214,352) | |
| Housing and Neighborhood Development | 102,865 | 23,543 | 76,577 | - | (2,745) | | (2,745) | |
| Cultural and Recreational: | | | | | | | | |
| Recreation | 102,311 | 3,754 | 8,449 | 2,678 | (87,430) | | (87,430) | |
| Parks | 8,556 | 3,257 | 6 | 1,242 | (4,051) | | (4,051) | |
| Libraries and Museums | 76,111 | 1,032 | 7,958 | - | (67,121) | | (67,121) | |
| Improvements to General Welfare: | | | | | | | | |
| Social Services | 625,271 | 8,292 | 507,274 | - | (109,705) | | (109,705) | |
| Education | 94,399 | 94 | - | - | (94,305) | | (94,305) | |
| Inspections and Demolitions | 38,028 | 53,909 | 122 | - | 16,003 | | 16,003 | |
| Service to Property: | | | | | | | | |
| Sanitation | 136,723 | 16,199 | 1,796 | - | (118,728) | | (118,728) | |
| Fire | 296,784 | 924 | 2,467 | - | (293,393) | | (293,393) | |
| General Management and Support | 743,377 | 134,193 | 39,341 | 489 | (569,354) | | (569,354) | |
| Interest on Long Term Debt | 161,796 | 8 | - | - | (161,788) | | (161,788) | |
| Total Governmental Activities | 5,927,069 | 371,854 | 1,986,413 | 48,903 | (3,519,899) | | (3,519,899) | |
| Business Type Activities: | | | | | | | | |
| Water and Sewer | 513,426 | 608,703 | 2,285 | - | - | 97,562 | 97,562 | |
| Aviation | 358,905 | 291,367 | - | 58,188 | - | (9,350) | (9,350) | |
| Industrial and Commercial Development | 581 | 430 | - | - | - | (151) | (151) | |
| Total Business Type Activities | 872,912 | 900,500 | 2,285 | 58,188 | - | 88,061 | 88,061 | |
| Total Primary Government | 6,799,981 | 1,272,354 | 1,988,698 | 107,091 | (3,519,899) | 88,061 | (3,431,838) | |
| **Component Units:** | | | | | | | | |
| Gas Operations | 651,976 | 683,487 | 11,131 | - | | | | 42,642 |
| Housing | 57,163 | 959 | - | 62,986 | | | | 6,782 |
| Parking | 234,011 | 240,197 | - | - | | | | 6,186 |
| Education | 3,172,373 | 41,853 | 1,009,737 | 3,809 | | | | (2,116,974) |
| Health | 796,234 | - | 796,234 | - | | | | - |
| Economic Development | 199,644 | 8,539 | 30,652 | 157,179 | | | | (3,274) |
| Total Component Units | 5,111,401 | 975,035 | 1,847,754 | 223,974 | | | | (2,064,638) |

| | | | | |
|---|---|---|---|---|
| General Revenues: | | | | |
| Taxes: | | | | |
| Property Taxes | 553,795 | - | 553,795 | 650,633 |
| Wage & Earnings Taxes | 1,598,686 | - | 1,598,686 | - |
| Business Taxes | 452,369 | - | 452,369 | - |
| Other Taxes | 706,005 | - | 706,005 | 209,200 |
| Grants & Contributions Not Restricted to Specific Programs | 187,369 | 42,233 | 229,602 | 1,085,470 |
| Unrestricted Interest & Investment Earnings | 17,916 | 12,713 | 30,629 | 2,554 |
| Miscellaneous | - | - | - | 1,347 |
| Special Items | - | - | - | 2,258 |
| Transfers | 21,380 | (21,380) | - | - |
| Total General Revenues, Special Items and Transfers | 3,537,520 | 33,566 | 3,571,086 | 1,951,462 |
| Change in Net Position | 17,621 | 121,627 | 139,248 | (113,176) |
| Net Position - July 1, 2012 | (1,772,472) | 1,737,527 | (34,945) | (773,441) |
| Adjustment | (14,655) | (74,451) | (89,106) | 5,836 |
| Net Position Adjusted - July 1, 2012 | (1,787,127) | 1,663,076 | (124,051) | (767,605) |
| Net Position - June 30, 2013 | (1,769,506) | 1,784,703 | 15,197 | (880,781) |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia**
**Balance Sheet**
**Governmental Funds**
**June 30, 2013**

**Exhibit III**

*Amounts in thousands of USD*

| | General Fund | HealthChoices Behavioral Health Fund | Grants Revenue Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash on Deposit and on Hand | 10,080 | - | 75 | 58,354 | 68,509 |
| Equity in Treasurer's Account | 458,185 | 233,592 | - | 123,377 | 815,154 |
| Investments | - | - | - | 86,248 | 86,248 |
| Due from Other Funds | 16,351 | - | - | 17 | 16,368 |
| Due from Component Units | 51,776 | - | - | - | 51,776 |
| Amounts Held by Fiscal Agent | 96,345 | - | 22,958 | - | 119,303 |
| Taxes Receivable | 581,729 | - | - | 12,649 | 594,378 |
| Accounts Receivable | 369,764 | - | 3,421 | 6,416 | 379,601 |
| Due from Other Governmental Units | 96,388 | 58,133 | 259,231 | 41,759 | 455,511 |
| Allowance for Doubtful Accounts | (624,009) | - | - | (1,661) | (625,670) |
| Interest and Dividends Receivable | 92 | 948 | - | 81 | 1,121 |
| Other Assets | - | - | - | 142 | 142 |
| Total Assets | 1,056,701 | 292,673 | 285,685 | 327,382 | 1,962,441 |
| **Liabilities** | | | | | |
| Vouchers Payable | 27,865 | 1,198 | 22,365 | 7,302 | 58,730 |
| Accounts Payable | 63,725 | 9,113 | 83,977 | 32,649 | 189,464 |
| Salaries and Wages Payable | 52,138 | - | 3,099 | 319 | 55,556 |
| Due to Other Funds | 699 | - | 5,642 | 10,727 | 17,068 |
| Due to Component Units | - | 48,638 | 1,371 | 168 | 50,177 |
| Funds Held in Escrow | 33,839 | - | - | 3,171 | 37,010 |
| Due to Other Governmental Units | - | - | - | 11,271 | 11,271 |
| Unearned Revenue | 172,440 | - | 93,367 | 2,167 | 267,974 |
| Overpayment of Taxes | 120,255 | - | - | - | 120,255 |
| Total Liabilities | 470,961 | 58,949 | 209,821 | 67,774 | 807,505 |
| **Deferred Inflows of Resources** | 301,382 | - | 234,310 | 36,761 | 572,453 |
| **Fund Balances** | | | | | |
| Nonspendable | - | - | - | 2,833 | 2,833 |
| Restricted | 96,345 | 233,724 | 58,693 | 222,097 | 610,859 |
| Committed | - | - | - | 5,108 | 5,108 |
| Assigned | 98,033 | - | - | - | 98,033 |
| Unassigned | 89,980 | - | (217,139) | (7,191) | (134,350) |
| Total Fund Balances | 284,358 | 233,724 | (158,446) | 222,847 | 582,483 |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | 1,056,701 | 292,673 | 285,685 | 327,382 | |

**Amounts reported for governmental activities in the statement of net position are different because:**

| | |
|---|---|
| a. Capital Assets used in governmental activities are not reported in the funds | 2,249,284 |
| b. Unavailable Revenue are reported as Deferred Inflows of Resources in the funds | 572,453 |
| c. Long Term Liabilities, including bonds payable are not reported in the funds | (5,205,440) |
| d. Derivatives and Deferred Outflows of Resources are not reported in the funds | 52,769 |
| e. Other | (21,055) |
| Net Position of Governmental Activities | (1,769,506) |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia** **Exhibit IV**

**Statement of Revenues, Expenditures and Changes in Fund Balances**
**Governmental Funds**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | General Fund | HealthChoices Behavioral Health Fund | Grants Revenue Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Tax Revenue | 2,724,307 | - | - | 580,113 | 3,304,420 |
| Locally Generated Non-Tax Revenue | 267,992 | 630 | 48,422 | 31,561 | 348,605 |
| Revenue from Other Governments | 335,697 | 812,980 | 958,854 | 104,442 | 2,211,973 |
| Other Revenues | 19,489 | - | - | 8,398 | 27,887 |
| Total Revenues | 3,347,485 | 813,610 | 1,007,276 | 724,514 | 5,892,885 |
| **Expenditures** | | | | | |
| Current Operating: | | | | | |
| Economic Development | 27,082 | - | 5,618 | 53,193 | 85,893 |
| Transportation: | | | | | |
| Streets & Highways | 51,803 | - | 1,592 | 28,180 | 81,575 |
| Mass Transit | 66,259 | - | 253 | - | 66,512 |
| Judiciary and Law Enforcement: | | | | | |
| Police | 1,077,052 | - | 12,386 | - | 1,089,438 |
| Prisons | 336,674 | - | 267 | 1,746 | 338,687 |
| Courts | 261,146 | - | 48,009 | - | 309,155 |
| Conservation of Health: | | | | | |
| Emergency Medical Services | 49,331 | - | 718 | - | 50,049 |
| Health Services | 153,019 | 810,567 | 361,454 | 139,584 | 1,464,624 |
| Housing and Neighborhood Development | 2,836 | - | 50,136 | 49,876 | 102,848 |
| Cultural and Recreational: | | | | | |
| Recreation | 81,857 | - | 8,406 | - | 90,263 |
| Parks | 15 | - | 5 | 3,853 | 3,873 |
| Libraries and Museums | 63,887 | - | 7,806 | 278 | 71,971 |
| Improvements to General Welfare: | | | | | |
| Social Services | 124,166 | - | 500,163 | - | 624,329 |
| Education | 94,399 | - | - | - | 94,399 |
| Inspections and Demolitions | 31,895 | - | 13,948 | - | 45,843 |
| Service to Property: | | | | | |
| Sanitation | 135,452 | - | 1,796 | - | 137,248 |
| Fire | 293,403 | - | 2,467 | - | 295,870 |
| General Management and Support | 554,846 | - | 23,266 | 44,651 | 622,763 |
| Capital Outlay | - | - | - | 161,127 | 161,127 |
| Debt Service: | | | | | |
| Principal | - | - | - | 114,045 | 114,045 |
| Interest | 3,789 | - | - | 108,421 | 112,210 |
| Bond Issuance Cost | 4,356 | - | - | - | 4,356 |
| Total Expenditures | 3,413,267 | 810,567 | 1,038,290 | 704,954 | 5,967,078 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (65,782) | 3,043 | (31,014) | 19,560 | (74,193) |
| **Other Financing Sources (Uses)** | | | | | |
| Issuance of Debt | 231,185 | - | - | - | 231,185 |
| Issuance of Refunding Debt | 299,805 | - | - | - | 299,805 |
| Bond Issuance Premium | - | - | - | 821 | 821 |
| Excess Pension Contribution | (252,668) | - | - | - | (252,668) |
| Bond Defeasance | (190,542) | - | - | - | (190,542) |
| Transfers In | 343,174 | - | 320 | 269,649 | 613,143 |
| Transfers Out | (169,424) | - | (33,799) | (388,547) | (591,770) |
| Total Other Financing Sources (Uses) | 261,530 | - | (33,479) | (118,077) | 109,974 |
| Net Change in Fund Balance | 195,748 | 3,043 | (64,493) | (98,517) | 35,781 |
| Fund Balance - July 1, 2012 | 88,610 | 230,681 | (93,953) | 321,364 | 546,702 |
| Fund Balance - June 30, 2013 | 284,358 | 233,724 | (158,446) | 222,847 | 582,483 |

The notes to the financial statements are an integral part of this statement.

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | |
|---|---|
| **Net Change in Fund Balances - Total Governmental Funds.....** | 35,781 |
| **Amounts reported for governmental activities in the statement of activities are different because:** | |
| a. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (136,859) exceeded depreciation (138,870) in the current period..... | (2,011) |
| b. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds..... | 57,134 |
| c. Proceeds from debt obligations provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments (517,135) exceeded proceeds (530,145)..... | (13,010) |
| d. The increase in the Net Pension Obligation reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds..... | 35,371 |
| e. Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds..... | (95,644) |
| **Change in Net Position of governmental activities.....** | 17,621 |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia** **Exhibit VI**

**Statement of Fund Net Position**
**Proprietary Funds**
**June 30, 2013**

*Amounts in thousands of USD*

| | Business Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | | | Other Non-Major | |
| | Water and | | Industrial & Commercial | |
| **Assets** | Sewer | Aviation | Development | Total |
| Current Assets: | | | | |
| Cash on Deposit and on Hand | 30 | - | - | 30 |
| Equity in Treasurer's Account | 82,494 | 93,581 | 3,626 | 179,701 |
| Due from Other Governments | 76 | 864 | - | 940 |
| Accounts Receivable | 160,060 | 14,596 | 1,972 | 176,628 |
| Allowance for Doubtful Accounts | (13,661) | (1,070) | - | (14,731) |
| Inventories | 13,799 | 3,207 | 14,088 | 31,094 |
| Total Current Assets | 242,798 | 111,178 | 19,686 | 373,662 |
| Non-Current Assets: | | | | |
| Restricted Assets: | | | | |
| Equity in Treasurer's Account | 313,927 | 332,362 | - | 646,289 |
| Amounts Held by Fiscal Agent | - | 341 | - | 341 |
| Sinking Funds and Reserves | 210,990 | 51,764 | - | 262,754 |
| Grants for Capital Purposes | 252 | 29,598 | - | 29,850 |
| Receivables | 1,405 | 6,038 | - | 7,443 |
| Total Restricted Assets | 526,574 | 420,103 | - | 946,677 |
| Capital Assets: | | | | |
| Land | 5,919 | 146,240 | - | 152,159 |
| Infrastructure | 2,167,639 | 919,139 | - | 3,086,778 |
| Construction in Progress | 373,844 | 323,394 | - | 697,238 |
| Buildings and Equipment | 1,591,073 | 1,851,544 | - | 3,442,617 |
| Less: Accumulated Depreciation | (2,119,125) | (1,435,290) | - | (3,554,415) |
| Total Capital Assets, Net | 2,019,350 | 1,805,027 | - | 3,824,377 |
| Total Non-Current Assets | 2,545,924 | 2,225,130 | - | 4,771,054 |
| Total Assets | 2,788,722 | 2,336,308 | 19,686 | 5,144,716 |
| **Deferred Outflows of Resources** | 73,865 | 31,897 | - | 105,762 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Vouchers Payable | 6,763 | 1,616 | - | 8,379 |
| Accounts Payable | 12,655 | 14,576 | - | 27,231 |
| Salaries and Wages Payable | 4,187 | 1,569 | - | 5,756 |
| Construction Contracts Payable | 27,530 | 21,510 | - | 49,040 |
| Accrued Expenses | 23,812 | 3,896 | - | 27,708 |
| Funds Held in Escrow | 1,902 | - | - | 1,902 |
| Unearned Revenue | 7,531 | 15,208 | - | 22,739 |
| Commercial Paper Notes | | 39,600 | | 39,600 |
| Bonds Payable-Current | 127,492 | 59,190 | - | 186,682 |
| Total Current Liabilities | 211,872 | 157,165 | - | 369,037 |
| Derivative Instrument Liability | 8,565 | 22,816 | - | 31,381 |
| Net Pension Liability | 8,962 | 14,273 | - | 23,235 |
| Non-Current Liabilities: | | | | |
| Bonds Payable | 1,702,895 | 1,296,195 | - | 2,999,090 |
| Other Non-Current Liabilities | 32,205 | 10,827 | - | 43,032 |
| Total Non-Current Liabilities | 1,735,100 | 1,307,022 | - | 3,042,122 |
| Total Liabilities | 1,964,499 | 1,501,276 | - | 3,465,775 |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 351,160 | 631,315 | - | 982,475 |
| Restricted For: | | | | |
| Capital Projects | 99,856 | 73,007 | - | 172,863 |
| Debt Service | 210,990 | 83,512 | - | 294,502 |
| Rate Stabilization | 161,464 | - | - | 161,464 |
| Unrestricted | 74,618 | 79,095 | 19,686 | 173,399 |
| Total Net Position | 898,088 | 866,929 | 19,686 | 1,784,703 |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia** **Exhibit VII**

**Statement of Revenues, Expenses and Changes in Fund Net Position**
**Proprietary Funds**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Sewer | Aviation | Other Non-Major Industrial & Commercial Development | Totals |
| Operating Revenues: | | | | |
| Charges for Goods and Services | 600,156 | 88,824 | - | 688,980 |
| Rentals and Concessions | - | 197,913 | - | 197,913 |
| Operating Grants | 2,285 | - | - | 2,285 |
| Miscellaneous Operating Revenues | 8,547 | 4,630 | 430 | 13,607 |
| Total Operating Revenues | 610,988 | 291,367 | 430 | 902,785 |
| Operating Expenses: | | | | |
| Personal Services | 110,784 | 63,191 | - | 173,975 |
| Purchase of Services | 88,395 | 88,684 | - | 177,079 |
| Materials and Supplies | 38,409 | 6,557 | - | 44,966 |
| Employee Benefits | 104,713 | 46,467 | - | 151,180 |
| Indemnities and Taxes | 3,108 | 1,946 | - | 5,054 |
| Depreciation | 89,045 | 97,873 | - | 186,918 |
| Cost of Goods Sold | - | - | 581 | 581 |
| Total Operating Expenses | 434,454 | 304,718 | 581 | 739,753 |
| Operating Income (Loss) | 176,534 | (13,351) | (151) | 163,032 |
| Non-Operating Revenues (Expenses): | | | | |
| Federal, State and Local Grants | 880 | 41,353 | - | 42,233 |
| Passenger Facility Charges | - | 58,188 | - | 58,188 |
| Interest Income | 12,079 | 632 | 2 | 12,713 |
| Net Pension Obligation | 2,839 | - | - | 2,839 |
| Debt Service - Interest | (80,146) | (40,180) | - | (120,326) |
| Other Revenue (Expenses) | (1,665) | (14,007) | - | (15,672) |
| Total Non-Operating Revenues (Expenses) | (66,013) | 45,986 | 2 | (20,025) |
| Income (Loss) Before Contributions & Transfers | 110,521 | 32,635 | (149) | 143,007 |
| Transfers In/(Out) | (21,380) | - | - | (21,380) |
| Change in Net Position | 89,141 | 32,635 | (149) | 121,627 |
| Net Position - July 1, 2012 | 865,320 | 852,372 | 19,835 | 1,737,527 |
| Adjustment | (56,373) | (18,078) | - | (74,451) |
| Net Position Adjusted - July 1, 2012 | 808,947 | 834,294 | 19,835 | 1,663,076 |
| Net Position - June 30, 2013 | 898,088 | 866,929 | 19,686 | 1,784,703 |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia**
**Statement of Cash Flows**
**Proprietary Funds**
**For the Fiscal Year Ended June 30, 2013**

**Exhibit VIII**

*Amounts in thousands of USD*

| | Business Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Sewer | Aviation | Other Non-Major Industrial & Commercial Development | Totals |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Receipts from Customers | 602,342 | 269,512 | - | 871,854 |
| Payments to Suppliers | (129,513) | (92,454) | (581) | (222,548) |
| Payments to Employees | (208,891) | (110,251) | - | (319,142) |
| Internal Activity-Payments to Other Funds | - | (7,053) | - | (7,053) |
| Claims Paid | (5,090) | - | - | (5,090) |
| Other Receipts (Payments) | - | 910 | 430 | 1,340 |
| Net Cash Provided (Used) | 258,848 | 60,664 | (151) | 319,361 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Operating Grants Received | 2,285 | 2,188 | - | 4,473 |
| Operating Subsidies and Transfers from Other Funds | (21,380) | - | - | (21,380) |
| Net Cash Provided (Used) | (19,095) | 2,188 | - | (16,907) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Proceeds from Debt Issuance | 97,860 | 39,600 | - | 137,460 |
| Capital Grants & Contributions Received | 628 | 27,483 | - | 28,111 |
| Acquisition and Construction of Capital Assets | (153,388) | (176,083) | - | (329,471) |
| Interest Paid on Debt Instruments | (76,180) | (43,673) | - | (119,853) |
| Principal Paid on Debt Instruments | (207,220) | (51,465) | - | (258,685) |
| Passenger Facility Charges | - | 58,444 | - | 58,444 |
| Net Cash Provided (Used) | (338,300) | (145,694) | - | (483,994) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from Sale and Maturities of Investments | - | 11,858 | - | 11,858 |
| Interest and Dividends on Investments | (63,653) | 923 | 2 | (62,728) |
| Net Cash Provided (Used) | (63,653) | 12,781 | 2 | (50,870) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (162,200) | (70,061) | (149) | (232,410) |
| Cash and Cash Equivalents, July 1 (including $478.0 mil for Water & Sewer and $385.1 mil for Aviation reported in restricted accounts) | 558,651 | 496,345 | 3,775 | 1,058,771 |
| Cash and Cash Equivalents, June 30 (including $313.9 mil for Water & Sewer and $332.7 mil for Aviation reported in restricted accounts) | 396,451 | 426,284 | 3,626 | 826,361 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:** | | | | |
| Operating Income (Loss) | 176,534 | (13,351) | (151) | 163,032 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation Expense | 89,045 | 97,873 | - | 186,918 |
| Changes in Assets and Liabilities: | | | | |
| Receivables, Net | (9,551) | (759) | - | (10,310) |
| Unearned Revenue | 905 | (20,186) | - | (19,281) |
| Inventories | (343) | (243) | - | (586) |
| Accounts and Other Payables | (4,134) | (2,670) | - | (6,804) |
| Accrued Expenses | 6,392 | - | - | 6,392 |
| Net Cash Provided by Operating Activities | 258,848 | 60,664 | (151) | 319,361 |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia** **Exhibit IX**

**Statement of Net Position**

**Fiduciary Funds**

**June 30, 2013**

*Amounts in thousands of USD*

| | Pension Trust Funds | Agency Funds |
|---|---|---|
| **Assets** | | |
| Cash on Deposit and on Hand | - | 100,861 |
| Equity in Treasurer's Account | 4,908,603 | 53,156 |
| Investments | - | 6,145 |
| Securities Lending Collective Investment Pool | 621,546 | - |
| Due from Brokers for Securities Sold | 154,907 | - |
| Interest and Dividends Receivable | 14,761 | - |
| Due from Other Governmental Units | 3,133 | - |
| Due from Other Funds | 15,742 | 699 |
| Total Assets | 5,718,692 | 160,861 |
| **Liabilities** | | |
| Vouchers Payable | 18 | 31 |
| Accounts Payable | 3,853 | - |
| Salaries and Wages Payable | 53 | - |
| Payroll Taxes Payable | - | 15,262 |
| Funds Held in Escrow | 9 | 145,568 |
| Due on Return of Securities Loaned | 622,021 | - |
| Due to Brokers for Securities Purchased | 184,142 | - |
| Accrued Expenses | 4,778 | - |
| Unearned Revenue | 1,792 | - |
| Other Liabilities | 488 | - |
| Total Liabilities | 817,154 | 160,861 |
| Net Position Held in Trust for Pension Benefits | 4,901,538 | - |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia** **Exhibit X**

**Statement of Changes in Net Position**
**Fiduciary Funds**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Pension Trust Funds |
|---|---|
| **Additions:** | |
| Contributions: | |
| Employers' Contributions | 805,496 |
| Employees' Contributions | 49,747 |
| Total Contributions | 855,243 |
| Investment Income: | |
| Interest and Dividends | 134,699 |
| Net Gain in Fair Value of Investments | 258,384 |
| (Less) Investments Expenses | (14,152) |
| Securities Lending Revenue | 2,996 |
| Securities Lending Unrealized Gain | 118,126 |
| (Less) Securities Lending Expenses | (331) |
| Net Investment Gain | 499,722 |
| Miscellaneous Operating Revenues | 469 |
| Total Additions | 1,355,434 |
| **Deductions** | |
| Personal Services | 3,502 |
| Purchase of Services | 1,618 |
| Materials and Supplies | 69 |
| Employee Benefits | 2,941 |
| Pension Benefits | 782,105 |
| Refunds of Members' Contributions | 5,744 |
| Administrative Expenses Paid | 796 |
| Other Operating Expenses | 211 |
| Total Deductions | 796,986 |
| Change in Net Position | 558,448 |
| Net Position - July 1, 2012 | 4,343,090 |
| Net Position - June 30, 2013 | 4,901,538 |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia**
**Statement of Net Position**
**Component Units**
**June 30, 2013**

**Exhibit XI**

*Amounts in thousands of USD*

| | Philadelphia Gas Works* | Philadelphia Redevelopment Authority | Philadelphia Parking Authority* | School District of Philadelphia | Community College of Philadelphia | Community Behavioral Health* | Delaware River Waterfront Corporation | Philadelphia Authority for Industrial Development* | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash on Deposit and on Hand | 100,933 | 80,918 | 69,077 | 502 | 12,312 | 32,054 | 4,114 | 17,113 | 317,023 |
| Equity in Pooled Cash and Investments | - | - | - | 93,648 | - | - | - | - | 93,648 |
| Investments | - | - | 13,655 | - | 37,021 | - | - | - | 50,676 |
| Due from Primary Government | - | 4,938 | - | - | - | 52,129 | - | - | 57,067 |
| Amounts Held by Fiscal Agent | - | - | - | 98,113 | - | - | - | - | 98,113 |
| Notes Receivable | - | 29,164 | - | - | - | 71 | - | - | 29,235 |
| Taxes Receivable | - | - | - | 173,648 | - | - | - | - | 173,648 |
| Accounts Receivable-Net | 97,749 | 1,110 | 970 | 14,298 | 6,724 | - | 3,878 | 25,772 | 150,501 |
| Interest and Dividends Receivable | - | 21,495 | 226 | 415 | 48 | - | - | - | 22,184 |
| Due from Other Governments | - | 203 | - | 66,711 | 2,753 | - | - | 57,809 | 127,476 |
| Inventories | 80,234 | 30,910 | - | 3,516 | - | - | - | - | 114,660 |
| Other Assets | 124,364 | 483 | 94,577 | 29,026 | 1,338 | 4,048 | 166 | 126 | 254,128 |
| Restricted Assets: | | | | | | | | | |
| Cash and Cash Equivalents | - | 10,716 | - | 109,152 | - | - | - | 16,085 | 135,953 |
| Other Assets | 155,155 | 25,572 | - | 18,375 | 3,633 | - | - | 27,366 | 230,101 |
| Capital Assets: | | | | | | | | | |
| Land and Other Non-Depreciated Assets | 50,004 | - | 15,980 | 168,285 | 30,877 | - | 1,850 | 10,262 | 277,258 |
| Other Capital Assets (Net of Depreciation) | 1,104,983 | 554 | 166,205 | 1,744,887 | 149,176 | 2,537 | 7,176 | 62,274 | 3,237,792 |
| Total Capital Assets | 1,154,987 | 554 | 182,185 | 1,913,172 | 180,053 | 2,537 | 9,026 | 72,536 | 3,515,050 |
| Total Assets | 1,713,422 | 206,063 | 360,690 | 2,520,576 | 243,882 | 90,839 | 17,184 | 216,807 | 5,369,463 |
| **Liabilities** | | | | | | | | | |
| Notes Payable | - | 21,894 | 5,927 | - | 86,016 | - | - | - | 113,837 |
| Vouchers Payable | 59,379 | - | - | - | 13,868 | - | - | - | 73,247 |
| Accounts Payable | - | 4,415 | 15,919 | 75,982 | - | 2,040 | 1,066 | 5,658 | 105,080 |
| Salaries and Wages Payable | 3,451 | - | - | 64,239 | 4,086 | 5,859 | - | - | 77,635 |
| Accrued Expenses | 198,317 | 3,488 | 728 | - | 902 | 74,640 | 447 | - | 278,522 |
| Funds Held in Escrow | - | 11,653 | - | - | 187 | - | - | 638 | 12,478 |
| Due to Other Governments | - | - | 14,825 | 5,374 | 1,908 | - | - | 12,160 | 34,267 |
| Due to Primary Government | - | 1,500 | 30,106 | - | - | - | - | 11,667 | 43,273 |
| Unearned Revenue | 4,898 | 38,184 | 1,348 | 17,015 | 3,418 | 8,300 | 5,043 | 78,948 | 157,154 |
| Overpayment of Taxes | - | - | - | 9,273 | - | - | - | - | 9,273 |
| Other Current Liabilities | - | - | - | 131,073 | - | - | - | - | 131,073 |
| Derivative Instrument Liability | - | - | - | 23,951 | - | - | - | - | 23,951 |
| Non-Current Liabilities: | | | | | | | | | |
| Due within one year | 49,800 | 4,464 | 10,970 | 262,985 | 2,324 | - | - | - | 330,543 |
| Due in more than one year | 1,038,990 | 33,956 | 168,421 | 3,531,628 | 42,738 | - | 2,313 | 41,865 | 4,859,911 |
| Total Liabilities | 1,354,835 | 119,554 | 248,244 | 4,121,520 | 155,447 | 90,839 | 8,869 | 150,936 | 6,250,244 |
| **Net Position** | | | | | | | | | |
| Net Investment in Capital Assets | 112,660 | 156 | 57,466 | (236,118) | 91,370 | 2,537 | 9,025 | 31,552 | 68,648 |
| Restricted For: | | | | | | | | | |
| Capital Projects | - | - | - | - | 3,318 | - | - | - | 3,318 |
| Debt Service | 111,100 | 11,238 | 2,434 | 98,228 | - | - | - | - | 223,000 |
| Behavioral Health | - | - | - | 18,375 | - | - | - | - | 18,375 |
| Educational Programs | - | - | - | 6,283 | 7,579 | - | - | - | 13,862 |
| Grant Programs | - | - | - | - | - | - | - | 30,203 | 30,203 |
| Other | - | - | - | 266 | - | - | - | - | 266 |
| Unrestricted | 134,827 | 75,115 | 52,546 | (1,487,978) | (13,832) | (2,537) | (710) | 4,116 | (1,238,453) |
| Total Net Position | 358,587 | 86,509 | 112,446 | (1,600,944) | 88,435 | - | 8,315 | 65,871 | (880,781) |

*** The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2013. Community Behavioral Health and the Philadelphia Authority for Industrial Development are presented as of the close of their fiscal year, December 31, 2012. The Philadelphia Parking Authority is presented as of the close of their fiscal year, March 31, 2013.**

**The notes to the financial statements are an integral part of this statement.**

**City of Philadelphia**
**Statement of Activities**
**Component Units**
**For the Fiscal Year Ended June 30, 2013**

**Exhibit XII**

*Amounts in thousands of USD*

| Functions | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position: Philadelphia Gas Works* | Philadelphia Redevelopment Authority | Philadelphia Parking Authority* | School District of Philadelphia | Community College of Philadelphia | Community Behavioral Health* | Delaware River Waterfront Corporation | Philadelphia Authority for Industrial Development* | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gas Operations** | | | | | | | | | | | | | |
| Gas Works | 651,976 | 683,487 | 11,131 | - | 42,642 | | | | | | | | 42,642 |
| **Housing** | | | | | | | | | | | | | |
| Redevelopment Authority | 57,163 | 959 | - | 62,986 | | 6,782 | | | | | | | 6,782 |
| **Parking** | | | | | | | | | | | | | |
| Parking Authority | 234,011 | 240,197 | - | - | | | 6,186 | | | | | | 6,186 |
| **Education** | | | | | | | | | | | | | |
| School District | 2,998,778 | 8,075 | 941,634 | 1,000 | | | | (2,048,069) | | | | | (2,048,069) |
| Community College | 173,595 | 33,778 | 68,103 | 2,809 | | | | | (68,905) | | | | (68,905) |
| Total | 3,172,373 | 41,853 | 1,009,737 | 3,809 | | | | | | | | | |
| **Health** | | | | | | | | | | | | | |
| Community Behavioral Health | 796,234 | - | 796,234 | - | | | | | | - | | | - |
| **Economic Development** | | | | | | | | | | | | | |
| Delaware River Waterfront Corp. | 12,380 | 6,520 | 5,187 | - | | | | | | | (673) | | (673) |
| Authority for Ind. Development | 187,264 | 2,019 | 25,465 | 157,179 | | | | | | | | (2,601) | (2,601) |
| Total | 199,644 | 8,539 | 30,652 | 157,179 | | | | | | | | | |
| Total Component Units | 5,111,401 | 975,035 | 1,847,754 | 223,974 | | | | | | | | | (2,064,638) |
| General Revenues: | | | | | | | | | | | | | |
| Property Taxes | | | | | - | - | - | 650,633 | - | - | - | - | 650,633 |
| Other Taxes | | | | | - | - | - | 209,200 | - | - | - | - | 209,200 |
| Grants & Contributions Not Restricted to Specific Programs | | | | | - | - | - | 1,025,762 | 60,033 | - | - | (325) | 1,085,470 |
| Unrestricted Interest & Investment Earnings | | | | | - | 1,445 | 1,548 | (1,864) | 1,370 | - | 55 | - | 2,554 |
| Miscellaneous | | | | | - | - | - | - | 1,347 | - | - | - | 1,347 |
| Special Item-Gain (Loss) on Sale of Capital Assets | | | | | - | - | - | - | - | - | - | 2,258 | 2,258 |
| Total General Revenue ,Special items and Transfers | | | | | - | 1,445 | 1,548 | 1,883,731 | 62,750 | - | 55 | 1,933 | 1,951,462 |
| | | Change in Net Position | | | 42,642 | 8,227 | 7,734 | (164,338) | (6,155) | - | (618) | (668) | (113,176) |
| Net Position - July 1, 2012 | | | | | 309,740 | 78,651 | 104,712 | (1,436,606) | 94,590 | - | 8,933 | 66,539 | (773,441) |
| Adjustment | | | | | 6,205 | (369) | - | - | - | | - | - | 5,836 |
| Net Position Adjusted - July 1, 2012 | | | | | 315,945 | 78,282 | 104,712 | (1,436,606) | 94,590 | - | 8,933 | 66,539 | (767,605) |
| Net Position - June 30, 2013 | | | | | 358,587 | 86,509 | 112,446 | (1,600,944) | 88,435 | - | 8,315 | 65,871 | (880,781) |

*** The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2013. Community Behavioral Health and the Philadelphia Authority for Industrial Development are presented as of the close of their fiscal year, December 31, 2012. The Philadelphia Parking Authority is presented as of the close of their fiscal year, March 31, 2013.**

**The notes to the financial statements are an integral part of this statement.**

SEAL OF THE CITY OF PHILADELPHIA
PHILADELPHIA
MANETO

# Notes to the Financial Statements
## FYE 06/30/2013

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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Philadelphia have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

### 1. REPORTING ENTITY

The City of Philadelphia was founded in 1682 and was merged with the county in 1854. Since 1951 the City has been governed largely under the Philadelphia Home Rule Charter. However, in some matters, including the issuance of short-term and long-term debt, the City is governed by the laws of the Commonwealth of Pennsylvania.

As required by GAAP, the financial statements of the City of Philadelphia include those of the primary government and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The financial statements of these component units have been included in the City's reporting entity either as blended component units or as discretely presented component units. The criteria to determine an entity as a component unit is established by Governmental Accounting Standards Board Statement (GASBS) No. 14 which has been amended by GASB Statements No. 39 and No. 61. GASB No. 61 was implemented in fiscal year 2013 to modify certain requirements for inclusion of component units. Certain other organizations also did meet the criteria for inclusion, however they are not included in the City's financial statements because they are not significant to a fair representation of the City's reporting entity. **Individual financial statements can be obtained directly from their administrative offices by writing to the addresses provided.**

As used both on the face of the financial statements and in the footnotes, the term "Primary Government" includes both City funds and Blended Component Units while the term "Component Units" includes only Discretely Presented Component Units. A Related Organization is an entity which the City appoints board members but for which the city has no significant financial responsibility.

#### A. BLENDED COMPONENT UNITS

**Pennsylvania Intergovernmental Cooperation Authority (PICA) – 1500 Walnut St., Philadelphia, PA 19102**
PICA was established by act of the Commonwealth of Pennsylvania to provide financial assistance to cities of the first class and is governed by a five member board appointed by the Commonwealth. Currently, the City of Philadelphia is the only city of the first class. The activities of PICA are reflected in two of the governmental fund types (Special Revenue and Debt Service).

**Philadelphia Municipal Authority (PMA) – 1515 Arch St., Philadelphia, PA 19102**
PMA is governed by a five member board appointed by the City and was established to issue tax exempt bonds for the acquisition and use of certain equipment and facilities for the City. The activities of PMA are reflected in three of the governmental fund types (Special Revenue, Debt Service and Capital Improvement).

#### B. DISCRETELY PRESENTED COMPONENT UNITS

The component unit columns in the applicable combined financial statements include the combined financial data for the organizations discussed below. They are reported in a separate column to emphasize that they are legally separate from the City. However, in order to retain their identity, applicable combining statements have been included as part of this report.

**Community College of Philadelphia (CCP) – 1700 Spring Garden St., Philadelphia, PA 19130**
CCP was established by the City to provide two year post-secondary education programs for its residents. It is governed by a Board appointed by the City, receives substantial subsidies from the City, and its budgets must be submitted to the City for review and approval.

**Delaware River Waterfront Corp. (DRWC) – 121 N. Columbus Blvd., Philadelphia, PA 19106**
The 16 member board, is headed by the Mayors' Deputy Director for Economic Development and Planning, and is comprised of appointed City officials and private sector experts in design, finance, and real estate development. The group will focus on the development of the seven-mile stretch of water front property between Allegheny and Oregon Avenues.

**Philadelphia Parking Authority (PPA) – 3101 Market St., Philadelphia, PA 19104**
PPA was established by the City to coordinate a system of parking facilities and on-street parking on behalf of the City. Its fiscal year ends on March 31. The City has guaranteed debt payments for PPA. A voting majority of PPA's governing board is not appointed by the City, however the significance of the City's relationship with PPA is such that exclusion from the City's financial report would be misleading.

**Philadelphia Redevelopment Authority (PRA) – 1234 Market St., Philadelphia, PA 19107**
PRA was established to rehabilitate blighted sections of the City. It is governed by a five-member board appointed by the City and must submit its budgets to the City for review and approval**.**

**School District of Philadelphia (SDP) – 440 N. Broad St., Philadelphia, PA 19130**
SDP was established by the Educational Supplement to the Philadelphia Home Rule Charter to provide free public education for the City's residents. A voting majority of the SDP governing board is not appointed by the City, however, the significance of the City's relationship with SDP is such that exclusion from the City's financial report would be misleading.

**Community Behavioral Health (CBH) – 801 Market St., Philadelphia, PA 19107**
CBH is a not-for-profit organization established by the City's Department of Public Health to provide for and administer all behavioral health services required by the Commonwealth of Pennsylvania. Its board is made up of City officials and City appointees. Any change in funding would present a financial burden to the City.

**Philadelphia Authority for Industrial Development (PAID) – 2600 Centre Sq. West, Philadelphia, PA 19102**
PAID was formed under the Industrial Development Authority Law to issue debt to finance eligible industrial and commercial development projects. PAID is the delegate agency responsible for administration of certain state grants and acts in the City's behalf on major development projects in the City. The City appoints a voting majority of PAID's board and is responsible for funding PAID's debt service.

**Philadelphia Gas Works (PGW) – 800 W. Montgomery Ave., Philadelphia, PA 19122**
PGW was established by the City to provide gas service to residential and commercial customers within the City of Philadelphia. The City appoints a voting majority of PGW's board and has the ability to modify or approve their budget.

C. **RELATED ORGANIZATION**

**Philadelphia Housing Authority (PHA) – 12 South 23RD Street, Philadelphia, PA 19103**
PHA was established to provide low cost housing and other social services to the residents of the City. It is governed by a nine member board with all members appointed by the City. PHA provides significant services to the City's residents.

## 2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City's *government wide* financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* which are normally supported by taxes and intergovernmental revenues are reported separately from *business type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. Interfund activity and balances have been eliminated from the statements to avoid duplication.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include: (1) charges to customers or applicants who purchase, use or directly benefit from services or privileges provided by a given program and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate *fund* financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the *government wide* financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the *fund* financial statements.

## 3. BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENTS

### A. PRIMARY GOVERNMENT

The *government wide* financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund (except agency funds which only report assets and liabilities and cannot be said to have a measurement focus) financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Real estate taxes are recognized as revenues in the year for which they are levied. Derived tax revenues such as wage, business income and receipts, and net profits and earnings taxes are recognized when the underlying exchange transaction has taken place. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Governmental fund* financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. However, those expenditures may be accrued if they are to be liquidated with available resources.

Imposed non-exchange revenues such as real estate taxes are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as wage, business income and receipts tax, net profits and earnings taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the City.

As a general rule, the effect of interfund activity has been eliminated from the *government wide* financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other programs of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various programs concerned.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenue* include: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues. Accordingly, general revenues include all taxes.

*The City reports the following major governmental funds:*

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- The Health Choices Behavioral Health Fund accounts for resources received from the Commonwealth of Pennsylvania. These resources are restricted to providing managed behavioral health care to Philadelphia residents.

- The Grants Revenue Fund accounts for the resources received from various federal, state and private grantor agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

Additionally, the City reports on Permanent funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of the funds that hold that the principal remain intact and only the earnings are allowed to be used for the program.

*The City* reports *on the following fiduciary funds:*

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.
- The Philadelphia Gas Works Retirement Reserve Fund accumulates resources to provide pension benefit payments to qualified employees of the Philadelphia Gas Works.
- The Escrow Fund accounts for funds held in escrow for various purposes.
- The Employees Health & Welfare Fund accounts for funds deducted from employees' salaries for payment to various organizations.
- The Departmental Custodial Accounts account for funds held in custody by various City Departments.

The City reports the following major proprietary funds:

- The Water Fund accounts for the activities related to the operation of the City's water delivery and sewage systems.
- The Aviation Fund accounts for the activities of the City's airports.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Water Fund are charges for water and sewer service. The principal operating revenue of the Aviation fund is charges for the use of the airport. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### B. COMPONENT UNITS

The **SDP** prepares their financial statements in a manner similar to the City and utilizes the full range of governmental and proprietary fund types.

The financial statements of the Community College of Philadelphia have been prepared in accordance with GASBS No. 35 - Basic Financial Statements - and Management's Discussion and Analysis - For Public Colleges and Universities. The remaining component units prepare their financial statements in a manner similar to that of proprietary funds.

## 4. DEPOSITS AND INVESTMENTS

The City utilizes a pooled Cash and Investments Account to provide efficient management of the cash of most City funds. In addition, separate cash accounts are maintained by various funds due to either legal requirements or operational needs. For Proprietary and Permanent Funds, all highly liquid investments (except for Repurchase Agreements) with a maturity of three months or less when purchased are considered to be cash equivalents.

The City reports investments at fair value. Short-term investments are reported at cost which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price. The fair value of real estate investments is based on independent appraisals. Investments which do not have an established market are reported at estimated fair value.

Statutes authorize the City to invest in obligations of the Treasury, agencies, and instruments of the United States, repurchase agreements, collateralized certificates of deposit, bank acceptance or mortgage obligations, certain corporate bonds, and money market funds. The Pension Trust Fund is also authorized to invest in corporate bonds rated AA or better by Moody's Bond Ratings, common stocks and real estate.

From February to early June, deposits of the City significantly exceeded the amounts reported at calendar year end. This was due to cyclical tax collections (billings for taxes are mailed in January and payable in March).

## 5. INVENTORIES

### A. PRIMARY GOVERNMENT

Supplies of governmental funds are recorded as expenditures when purchased rather than capitalized as inventory. Accordingly, inventories for governmental funds are shown on the Statement of Net Position but not on the Governmental Funds Balance Sheet. Inventories of proprietary funds are valued at moving average cost except for the following:

- **Industrial and Commercial Development Fund** inventory represents real estate held for resale and is valued at cost.

### B. COMPONENT UNITS

All inventories are valued at moving average cost except for the following:

- **PGW** inventory consists primarily of fuel stock and gases which are stated at average cost.
- The **SDP** Food Services Fund inventories include food donated by the Federal Government which was valued at government cost or estimated value. All other food or supply inventories were valued at last unit cost and will be expensed when used.
- **PRA** inventory represents real estate held for resale and is recorded based on the estimated appraisal of values and cost basis of land inventories acquired.

## 6. CAPITAL ASSETS

### A. PRIMARY GOVERNMENT

Capital Assets, which include property, plant, equipment and infrastructure assets (e.g. bridges, curbs and gutters, streets and sidewalks and lighting systems), are reported in the applicable governmental or business-type activities columns in the *government wide* financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of three years. Capital assets are recorded at cost. Costs recorded do not include interest incurred as a result of financing asset acquisition or construction. Assets acquired by gift or bequest are recorded at their fair market value at the date of gift. Upon sale or retirement, the cost of the assets and the related accumulated depreciation, if any, are removed from the accounts. Maintenance and repair costs are charged to operations.

The City transfers Construction In Process to one or more of the major asset classes: (1) when project expenditures are equal to or have exceeded 90% of the estimated cost on new facilities (except for the Aviation Fund which uses 80% as the determining percentage), (2) when the expenditures are for existing facilities or (3) when they relate to specific identifiable items completed during the year which were part of a larger project.

Cost of construction for proprietary fund capital assets includes all direct contract costs plus overhead costs. Overhead costs include direct and indirect engineering costs and interest incurred during the construction period for projects financed with bond proceeds. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest on invested proceeds over the same period.

Depreciation on the capital assets for all City funds is provided on the straight-line method over their estimated useful lives: buildings - 20 to 50 years; equipment and storage facilities - 3 to 25 years; and transmission and distribution lines - 50 years.

Collections of art and historical treasures meet the definition of a capital asset and normally should be reported in the financial statements. However, the requirement for capitalization is waived for collections that meet certain criteria. The City has collections of art, historical treasures and statuary that are not capitalized as they meet all of the waiver requirements which are: (1) the collections are held solely for public exhibition, (2) the collections are protected, preserved and cared for and (3) should any items be sold, the proceeds are

used only to acquire other items for the collections. Among the City's collections are historical artifacts at the Ryers Museum & Library, Loudoun Mansion, Fort Mifflin, Atwater Kent Museum and the Betsy Ross House. The city also has sculptures, paintings, murals and other works of art on display on public property and buildings throughout the City.

### B. COMPONENT UNITS

Depreciation on the capital assets for component units is provided on the straight-line method over their estimated useful lives: buildings - 15 to 50 years; equipment and storage facilities - 3 to 25 years; and transmission and distribution lines - 50 years.

## 7. BONDS AND RELATED PREMIUMS, DISCOUNTS & ISSUANCE COSTS

In the *government-wide* financial statements and in the proprietary fund statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In FY13 GASB Statement No. 65 was implemented resulting in bond issuance costs being recognized as an expense and reported in the period incurred.

In *governmental fund* financial statements, bond premiums, discounts and issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt issuance expenditures.

## 8. INSURANCE

The City, except for the Airport and certain other properties, is self-insured for most fire and casualty losses to its structures and equipment and provides statutory workers' compensation, unemployment benefits, and health and welfare to its employees through a self-insured plan.

## 9. RECEIVABLE AND PAYABLES

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the *governmental-wide* financial statements as "internal balances".

All trade and property receivables in the *governmental wide* financial statements are shown net of allowance for uncollectibles. The real estate tax receivable allowance is equal to 30.6% of outstanding real estate taxes at June 30. Property taxes are levied on a calendar year basis. The City's property taxes, levied on assessed valuation as of January 1, are due and payable on or before March 31. Taxes levied are intended to finance the fiscal year in which they become due. Current real estate rates are $9.771 on each $100 assessment; $5.309 for the SDP and $4.462 for the City. Delinquent charges are assessed at 1.5% per month on all unpaid balances as of April 1. Real estate tax delinquents are subject to lien as of the following January 1. The City has established real estate improvement programs that abate, for limited periods, tax increases that result from higher assessments for improved properties. Certain incremental tax assessments are earmarked to repay loans from the City to developers who improve properties under Tax Increment Financing agreements.

## 10. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION

Beginning with the fiscal year ended June 30, 2013 the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This new GASB Statement replaces the term Net Assets with Net Position. Net Position is the residual of (a) assets and deferred outflows, less (b) liabilities and deferred inflows. The new deferred classifications take into consideration the fact that governments enter into transactions that are applicable to future periods.

Also, beginning with the fiscal year ended June 30, 2013 the city chose to early implement GASB Statement No. 65: *Items Previously Reported as Assets and Liabilities*. The objective of Statement No. 65 is to either properly classify or recognize, certain items that were previously reported as assets and liabilities as outflows of resources (expenses/expenditures) or inflows of resources (revenues).

Deferred Outflows of resources represents consumption of net position that applies to a future period(s) and will not be recognized as an expenditure/expense until that time. On the full accrual basis of accounting, the City has two

items that qualify for reporting in this category. Derivative instruments are reported for the changes in fair value. Deferred Refunding results from the difference in the refunding of debt and its reacquisition price. These items have been reported as deferred outflows on the Statement of Net Position.

(Amounts in Thousands of USD)

| | Governmental Activities | Business Type Activities |
|---|---|---|
| **Deferred Outflows of Resources** | | |
| Derivative Instrument | 62,510 | 31,381 |
| Deferred Charge of Refunding | 58,688 | 74,381 |
| **Total:** | 121,198 | 105,762 |

Deferred Inflows of resources represents an acquisition of net position that applies to future period(s) and will not be recognized as revenue until that time. On the modified accrual statements, the City has three items that are reported in the Governmental Balance Sheet as deferred inflows: Unavailable Tax revenue, Unavailable Agency revenue and Unavailable Governmental revenue.

(Amounts in Thousands of USD)

| | General Fund | Grants Revenue Fund | Other Governmental Funds |
|---|---|---|---|
| **Deferred Inflows of Resources** | | | |
| Unavailable Tax Revenue | 169,054 | - | 265 |
| Unavailable Agency Revenue | 28,855 | - | - |
| Unavailable Government Revenue | 103,473 | 234,310 | 36,496 |
| **Total:** | 301,382 | 234,310 | 36,761 |

## 11. COMPENSATED ABSENCES

It is the City's policy to allow employees to accumulate earned but unused vacation benefits. Vacation pay is accrued when earned in the *government-wide* financial statements and in the proprietary and fiduciary-*fund* financial statements. Sick leave balances are not accrued in the financial statements because sick leave rights are non-vesting.

## 12. CLAIMS AND JUDGMENTS

Pending claims and judgments are recorded as expenses in the *government wide* financial statements and in the proprietary and fiduciary fund financial statements when the City solicitor has deemed that a probable loss to the City has occurred. Claims and judgments are recorded as expenditures in the government fund financial statements when paid or when judgments have been rendered against the City.

## 13. UNEARNED REVENUE

GASB Statement No.65 prohibits the usage of the term "deferred" on any line items other than deferred inflows or outflows. Therefore, the term "Deferred Revenue" has been replaced by "Unearned Revenue". Unearned Revenue as reported in all the City's fund financial statements represents revenue received in advance with the exception of the General Fund. The General Fund reports two types of unearned revenue, Revenue Received in Advance ($5.5 million) and Business Income and Receipts Tax (BIRT) ($166.9 million).

## II. LEGAL COMPLIANCE

### 1. BUDGETARY INFORMATION

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). In accordance with the Philadelphia Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The operating funds of the City, consisting of the General Fund, nine Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, HealthChoices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development, Car Rental Tax, Housing Trust, and Acute Care Hospital Assessment Funds) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. Included with the Water Fund is the Water Residual Fund. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: personal services; purchase of services; materials and supplies; equipment; contributions, indemnities and taxes; debt service; payments to other funds; and advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated together) must have council approval. Appropriations that are not expended or encumbered at year end are lapsed. Comparisons of budget to actual activity at the legal level of compliance are located in the City's *Supplemental Report of Revenues and Obligations*, a separately published report.

The City Capital Improvement Fund budget is adopted annually by the City Council. The Capital Improvement budget is appropriated by project for each department. All transfers between projects exceeding twenty percent of each project's original appropriation must be approved by City Council. Any funds that are not committed or expended at year end are lapsed. Comparisons of departmental project actual activity to budget are located in the City's *Supplemental Report of Revenues and Obligations*.

The budgetary comparison schedules presented differ from the modified accrual basis of accounting. These schedules differ from the GAAP basis statements in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

During the year, classification adjustments and supplementary appropriations were necessary for City funds. Therefore, budgeted appropriation amounts presented are as originally passed and as amended by the City Council. As part of the amendment process, budget estimates of City related revenues are adjusted and submitted to City Council for review. Changes in revenue estimates do not need City Council approval, but are submitted in support of testimony with regard to the appropriation adjustments. Revenue estimates are presented as originally passed and as amended.

## III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS

### 1. DEPOSITS AND INVESTMENTS

**Deposits**

State statutes require banks to collateralize City deposits at amounts equal to or in excess of the City's balance. Such collateral is to be held by the Federal Reserve Bank or the trust department of a commercial bank other than the pledging bank. At year-end, the carrying amount (book balance) of deposits for the City and the bank balances were $411.9 million and $411.9 million respectively. All of the collateralized securities were held in the City's name except for $120.9 million which was collateralized but held in the pledging institutions name.

**Investments**

The City has established a comprehensive investment policy that covers all funds other than the Municipal Pension Fund and the Philadelphia Gas Works Retirement Reserve. Both of those funds have separate investment policies designed to meet the long-term goals of the fund. To minimize custodial credit risk, the city's policy is to select custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents to the City's custodian is required for all investments.

As of June 30, 2013 the City's Investments including Pension Trust Funds consisted of:

(amounts in thousands of USD)

| Classifications | Fair Value | % of Total |
|---|---|---|
| Corporate Equities | 2,198,128 | 32.50% |
| Miscellaneous - Limited Partnership | 901,590 | 13.33% |
| U.S. Government Securities | 645,794 | 9.55% |
| U.S. Government Agency Securities | 649,675 | 9.61% |
| Other Bonds and Investments | 610,032 | 9.02% |
| Corporate Bonds | 591,964 | 8.75% |
| Short-Term Investment Pools | 558,565 | 8.26% |
| Mutual Funds | 332,801 | 4.92% |
| Commercial Paper | 207,462 | 3.07% |
| Collateralized Mortgage Obligations | 39,502 | 0.58% |
| Financial Agreement | 23,393 | 0.35% |
| Certificate of Deposit | 5,000 | 0.07% |
| Grand Total | 6,763,906 | 100.00% |

*Credit Risk:* The City's policy to limit credit risks is to invest in US Government securities (9.55%) or US Government Agency obligations (9.61%). The US Government Agency obligations must be rated AAA by Standard & Poor's Corp or Aaa by Moody's Investor Services. All US Government Securities meet the criteria. The City's investment in Commercial paper (3.07%) must be rated A1 by Standard & Poor's Corp. (S&P) and/or M1G1 by Moody's Investor's Services, Inc (Moody's) and the senior long-term debt of the issuer must not be rated lower than A by S&P and/or Moody's. Commercial Paper is also limited to 25% of the portfolio. All commercial paper investments meet the criteria. Of the corporate bonds held by the City, 11% had a Standard & Poor's rating of AAA to AA. Cash accounts are swept nightly and idle cash invested in money market funds (short term investment pools). Short Term Investment Pools are rated AAA by Standard & Poor's Corp and Aaa by Moody's Investor Services. The Short Term Investment Pools' Fair Value is the same as the value of the pool shares. The City limits its foreign currency risk by investing in certificates of deposit and bankers acceptances issued or endorsed by non-domestic banks that are denominated in US dollars providing that the banking institution has assets of not less than $100 million and has a Thompson's Bank Watch Service "Peer Group Rating" not lower than II. At the end of the fiscal year, the City did not have any investments of that nature.

**City Excluding Pension Trust Funds**

*Interest Rate Risk:* The City's investment portfolio is managed to accomplish preservation of principal, maintenance of liquidity and maximize the return on the investments. To limit its exposure to fair value losses from rising interest rates, the city's investment policy limits investments to maturities of no longer than 2 years, except in Sinking Fund Reserve Portfolios.

(amount in thousands of USD)

| Classifications | Less than 1 Year | 1 - 3 Years | More than 3 Years |
|---|---|---|---|
| U.S. Government Securities | 346,499 | 276,365 | 8,686 |
| Corporate Bonds | 108,221 | 49,369 | - |
| U.S. Government Agency Securities | 223,094 | 199,050 | 34,752 |
| Commerical Papers | 207,462 | - | - |
| Financial Agreement | 13,395 | 9,998 | - |
| Total | 898,671 | 534,782 | 43,438 |

**Municipal Pension Fund**

*Credit Risk*: Currently, the Municipal Pension Fund owns approximately 65.4% of all investments and is invested primarily in equity securities (77.6%). The fund's resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the Municipal Pension fund is charged with reviewing the portfolios for compliance with those objectives and guidelines. Of the fixed income type investments held by the pension fund, 13% had Standard & Poor ratings of AAA to A.

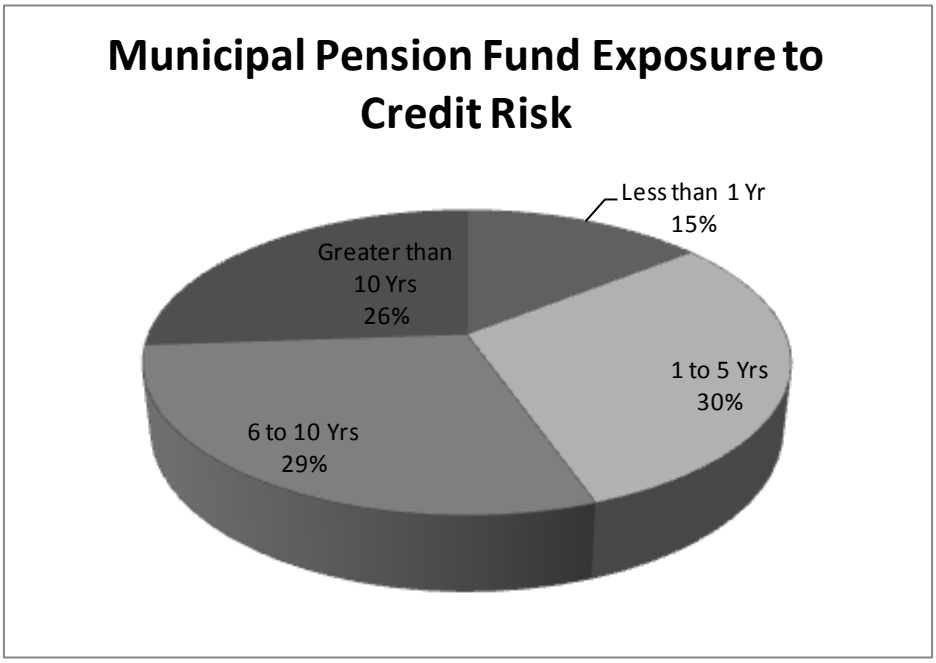
**Municipal Pension Fund**

**Assets subject to foreign currency risk:**

(thousands of USD)

| Currency | Fixed Income | Equity | % of Equity |
|---|---|---|---|
| Euro Currency | 21,679 | 150,604 | 21.32% |
| Pound Sterling | 14,328 | 114,162 | 16.16% |
| Japanese Yen | 41 | 115,097 | 16.30% |
| Swiss Franc | - | 58,778 | 8.32% |
| Hong Kong Dollar | 39 | 58,332 | 8.26% |
| Mexican Peso | 35,526 | 11,018 | 1.56% |
| South Korean Won | 8,356 | 34,916 | 4.94% |
| Australian Dollar | 17,216 | 18,975 | 2.69% |
| Brazilian Real | 14,428 | 22,156 | 3.14% |
| Canadian Dollar | 29 | 33,165 | 4.70% |
| South African Rand | 13,717 | 14,424 | 2.04% |
| Malaysian Ringgit | 14,866 | 7,645 | 1.08% |
| Polish Zloty | 14,956 | 3,846 | 0.54% |
| Singapore Dollar | - | 16,632 | 2.35% |
| Indonesian Rupiah | 6,308 | 6,422 | 0.91% |
| Turkish Lira | 7,632 | 3,977 | 0.56% |
| Hungarian Forint | 10,992 | 427 | 0.06% |
| Swedish Krona | - | 10,277 | 1.46% |
| Thai Baht | 4,747 | 5,343 | 0.76% |
| All Others | 18,124 | 20,109 | 2.85% |
| | 202,984 | 706,305 | 100.00% |

This chart details the exposure to interest rate changes based on maturity dates of the fixed income securities:




**Philadelphia Gas Works Retirement Reserve (PGWRR)**

*Credit Risk:* Currently, the **PGWRR** owns approximately 6.93% of all investments and is primarily invested in equity securities (65.84%). The long-term goals of the fund are to manage the assets to produce investment results which meet the Fund's actuarially assumed rate of return and protect the assets from any erosion of inflation adjusted value. The fund's resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the **PGWRR** is charged with reviewing the portfolios for compliance with those objectives and guidelines. To protect against credit risk, the fund requires that all domestic bonds must be rated investment grade by at least two ratings agencies (Standard & Poor's, Moody's or Fitch). The portfolio managers' Average Credit Quality ranges from AAA to AA.

The **PGWRR's** fixed income investments are as follows:

| (thousands of USD) | Maturity Length | | | | |
|---|---|---|---|---|---|
| **Investment Type** | Less than 1 yr. | 1-3 yrs | 3-5 yrs | 5-10 yrs | More than 10 yrs |
| Short-Term Investment Pools | 12,960 | - | - | - | - |
| U.S. Government Agency Securities | - | 10,969 | 6,641 | 1,097 | 9,583 |
| U.S. Government Securities | 448 | 7,391 | 3,553 | 2,676 | 176 |
| MTG Pass Thrus | - | - | - | - | 1,792 |
| Municipal Securities | - | - | 836 | 948 | 512 |
| Asset Backed Securities | - | 358 | 2,110 | 2,449 | 18,574 |
| Corporate bonds | 1,887 | 11,220 | 11,881 | 38,171 | 13,483 |
| | 15,295 | 29,938 | 25,021 | 45,341 | 44,120 |

**Blended Component Units**

**A. PICA**

The Authority may deposit funds in any bank that is insured by federal deposit insurance. To the extent that the deposits exceed federal insurance, the depositories must deposit (with their trust department or other custodian) obligations of the US Government, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth. Investments must be made in accordance with a trust indenture that restricts investments to obligations of the City of Philadelphia, government obligations, repurchase agreements collateralized by direct obligations of or obligations the payments of principal and interest on which are unconditionally guaranteed as to full and timely payment by the United States of America, money market mutual fund shares issued by a fund having assets not less than $100,000,000 or guaranteed investment contracts (GIC) with a bank insurance company or other financial institution that is rated in one of the three highest rating categories by the rating agencies and which GICs are either insured by municipal bond insurance or fully collateralized at all times.

At June 30, 2013 the carrying amount of **PICA's** deposits with financial institutions (including certificates of deposit and shares in US government money market funds) and other short-term investments was $114 million. Statement balances were insured or collateralized as follows:

| | (thousands of USD) |
|---|---|
| Insured | 4,674 |
| Uninsured and uncollateralized | 109,322 |
| Total: | 113,996 |

**PICA**'s deposits include bank certificates of deposit with a remaining maturity of one year or less and shares in US government money market funds.

**Investment Derivative Instruments**

As of June 30, 2013, PICA's basis caps did not meet the criteria for effectiveness as a hedging instrument. Therefore, they are reported as investment derivative instruments.

(amounts in thousands of USD)

| | Changes in Fair Value | | Fair Value at June 30, 2013 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| **Governmental Activities** | | | | | |
| Investment Derivatives: | | | | | |
| Basis Caps | Investment Revenue | (406) | Investment | 3,006 | 324,745 |

**a. PICA Series of 2003 and 1999 Basis Cap Agreements**

In June 2003 and 2004, the Authority entered into basis cap transactions with the counterparty as follows:

2003 Basis Cap

Beginning July 15, 2003, the counterparty pays the Authority a fixed rate each month of .40% per year and the Authority will pay to the counterparty a variable rate based on the greater of (a) the average of the BMA for the month divided by the one-month LIBOR, less 70%, multiplied by the one-month LIBOR, times the notional amount times the day count fraction or (b) zero. The agreement matures June 15, 2022.

1999 Basis Cap

Beginning July 15, 2009, the counterparty pays the Authority a fixed rate each month of .46% per year and the Authority will pay to the counterparty a variable rate based on the greater of (a) the average of the BMA for the month divided by the one-month LIBOR, less 70%, multiplied by the one-month LIBOR, times the notional amount times the day count fraction or (b) zero. The notional agreement matures June 15, 2023.

*Fair value*: As of June 30, 2013, the 2003 Basis Cap had a positive fair value of $733,062. This means that **PICA** would receive this amount to terminate the 2003 basis cap. As of June 30, 2013, the 1999 Basis Cap had a positive fair value of $2,273,256. This means that **PICA** would receive this amount to terminate the 1999 basis cap.

*Risk:* The basis caps include an additional termination event based on credit ratings. The basis cap may be terminated by the Authority if the counterparty's ratings fall below A- or A3 and collateral is not posted within 15 days.

**B. PHILADELPHIA MUNICIPAL AUTHORITY**

The authority does not have a formally adopted investment policy; however, the terms of their bond indentures limit the investments in which the trustee can deposit funds. These limited investments include US government obligations, repurchase agreements for government obligations, certificates of deposits and other time deposit arrangements with financial institutions. Investments at June 30 are summarized as follows:

| | (thousands of USD) | |
|---|---|---|
| | **Fair Value** | **Cost** |
| Money Market Funds | 7,195 | 7,195 |
| U.S. Treasury & Agency obligation | 4,250 | 4,250 |
| U.S. Treasury bonds & notes | 750 | 750 |
| Certificates of Deposit | 100 | 100 |
| Corporate bond & debts | 5,334 | 5,490 |
| | 17,629 | 17,785 |

All investments were uninsured and collateralized with securities held by the pledging financial institution's trust department or by the Federal Reserve Bank of Philadelphia at June 30, 2013.

The Authority does not have a formally adopted investment policy related to credit risk, but generally follows the practices of the City. As of June 30, 2013 the Authority's investments in U.S. Government Securities were rated AAA, and investments in corporate and foreign debt were rated AA+ or AAA, by Standard & Poor's. Investments in money market funds and certificates of deposit were not rated. Depository cash accounts consisted of $313,418 on deposit with two local banks. Amounts are insured by the FDIC up to $250,000. Deposits in excess of the FDIC limit are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

**Discretely Presented Component Units**

**a. Philadelphia Authority for Industrial Development Basis Swap**

As of June 30, 2013, **PAID's** basis swap did not meet the criteria for effectiveness as a hedging instrument. Therefore, it is reported as an investment derivative instrument.

(amounts in thousands of USD)

| | Changes in Fair Value | | Fair Value at June 30, 2013 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| **Governmental Activities** | | | | | |
| Investment Derivatives: | | | | | |
| Basis Swap | Investment Revenue | (1,169) | Investment | (5,919) | 193,520 |

*Objective:* **PAID** entered into a basis swap that became effective on July 1, 2004, that provides **PAID** with ten equal payments of $1.2 million with the first payment due on July 1, 2004. **PAID** executed the basis swap to create a benefit similar to entering into a synthetic refunding, using a swap based on a percentage of LIBOR, without having to issue bonds or eliminate future advance refunding opportunities. In July, 2006, a portion of the existing basis swap was restructured such that the variable rate received by **PAID** was converted from a percentage of one month LIBOR to a percentage of the five year LIBOR swap rate, on a forward starting basis. This was intended to provide for potentially significant long-term savings while also providing for a diversification of the City's variable rate index on its entire swap portfolio. The restructured portion of the swap was terminated in December 2009 at a benefit.

*Terms:* The original swap was executed with Merrill Lynch Capital Service Inc. ("MLCS") with payments based on an amortization schedule and an initial notional amount of $298.5 million. The swap commenced on July 1, 2004 and matures on October 1, 2030. Under the swap, **PAID** pays a variable rate equal to the SIFMA Municipal Swap Index and receives a variable rate computed as 67% of one-month LIBOR + 20 basis points. **PAID,** also receives ten equal payments of $1.2 million from MLCS starting on July 1, 2004. Payments under this swap are a lease rental obligation of the City.

A portion of the original transaction in the amount of $105 million was amended such that the variable payments received by **PAID** were computed as 62.89% of five year LIBOR + 20 basis points (replacing 67% of one month LIBOR + 20 basis points). The amendment effective date was October 1, 2006, with variable payments to be made (as described above) through October 1, 2020. On December 1, 2009, **PAID** terminated that portion of the swap that was subject to the amendment and received a termination payment of $3,049,000.

As of June 30, 2013, the notional amount on the portion of the swap that was not amended was $193.5 million.

*Fair Value:* As of June 30, 2013, the swap had a negative fair value of ($5.9 million). This means that **PAID** would have to pay this amount to terminate the swap.

*Risks:* As of June 30, 2013, **PAID** is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, **PAID** would be exposed to credit risk in the amount of the swaps' fair value. The swap includes an additional termination event based on credit ratings. The swap may be terminated by **PAID** if the ratings of MLCS's guarantor (Merrill Lynch & Co.) falls below Baa3 or BBB- or the swap may be terminated by MLCS if the City's rating falls below Baa3 or BBB-. There is a 3-day cure period to these termination events.

The swap exposes **PAID** to basis risk, the risk that the relationship between one month LIBOR and the SIFMA index may change from the historic pattern that existed when the swap was entered into. If SIFMA averages higher than 67% of one month LIBOR plus 20 bps, the anticipated savings of the swap will be reduced and may not materialize.

**b. School District of Philadelphia Basis Swaps**

**Issued and Adopted Accounting Principles**: In June 2008, the GASB issued Statement 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net **position** at fair value. For swaps deemed to be investment instruments under GASB 53, such as the School District's basis swaps, the changes in fair value are reported in the statement of activities as investment revenue or loss.

**Objective, Terms, Fair Value and Accounting of Derivative Instruments**: The School District engaged an independent pricing service with no vested interest in the interest rate swap transactions to perform the valuations, and evaluation of the swaps for compliance with GASB 53. Fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

The swaps where the School District pays and receives floating rates--basis swaps--are deemed investment instruments under GASB 53 and are accounted for as investment instruments.

The table below displays the objectives, terms, and fair values of the School District's derivative instruments outstanding as of June 30, 2013 along with the counterparties and their credit ratings.

| Associated Bonds | Initial Notional | Current Notional | Effective Date | Maturity Date | Rate Paid | Rate Received | Fair Value | Bank Counterparty | Counterparty Ratings |
|---|---|---|---|---|---|---|---|---|---|
| Series 2003 School Lease Revenue Bonds | $150,000,000 | $150,000,000 | 11/30/06 | 5/15/2033 | SIFMA Swap Index | 67% of USD-LIBOR + 0.2788% | ($7,185,341) | Wells Fargo Bank N.A. | Aa3/AA-/AA- |
| Series 2003 School Lease Revenue Bonds | $350,000,000 | $350,000,000 | 11/30/06 | 5/15/2033 | SIFMA Swap Index | 67% of USD-LIBOR + 0.2788% | ($16,765,796) | JPMorgan Chase Bank, N.A. | Aa1/A+/A+ |
| | | | | | | | ($23,951,137) | | |

*Basis Risk* - The primary objective of the basis swaps was for the School District to reduce interest cost from the expected benefit resulting from short term tax-exempt rates reflecting prevailing income tax rates throughout the life of the swap. The School District receives a percentage of 1-Month LIBOR plus a spread of 0.2788% and pays the SIFMA tax-exempt rate, with the expectation of a 0.2788% net benefit over the life of the swap as long as tax rates remain the same. The historical average ratio of 1-Month LIBOR (short-term taxable rates) versus SIFMA Swap Rates (short-term tax-exempt rates), a direct function of income tax rates, is approximately 67%. Therefore, there needs to be a spread payable to the School District in exchange for 67% of LIBOR over the long term and this is the value of the benefit, the risk being tax rates change over the life of the basis swap. This additional receipt of 0.2788% to the School District is the expected benefit and reduction to interest cost on the associated bonds for the life of the basis swap transaction. From the date of execution of the two basis swaps through June 30, 2013, the net benefit to the School District has been $9,134,530.

The value of such a swap is determined by the prevailing level of taxable interest rates received versus the level of tax-exempt interest rates paid.

*Credit risk* - This is the risk that the counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the total fair value of swaps netting, or aggregating under a contract between the School District and each counterparty. The School District would be exposed to credit risk on derivative instruments under a netting agreement that would total to an asset position. As of June 30, 2013, the School District has no credit risk exposure on the two basis swap contracts because the swaps under each netting agreement with each counterparty have negative fair values, meaning the counterparties are exposed to the School District in the amount of the derivatives' fair values. However, should interest rates change and the fair values of the basis swaps become positive, the School District would be exposed to credit risk.

The basis swap agreements contain varying collateral agreements with the counterparties. The basis swaps require collateralization of the fair value of the basis swap should the counterparty's credit rating fall below the applicable thresholds.

*Termination risk* - Only the School District may terminate the two exiting basis swaps if the counterparty fails to perform under the terms of the respective contracts. If at the time of termination the swaps have a negative fair value, the School District would be liable to the counterparty for a payment equal to the basis swap's fair value.

## 2. SECURITIES LENDING

The Board of Directors of the Municipal Pension Fund (Pension Fund) and the Sinking Fund Commission (on behalf of the Philadelphia Gas Works Retirement Reserve Fund (PGWRR)) have each authorized management of the respective funds to participate in securities lending transactions. Each fund has entered into a Securities Lending Agreement with its custodian bank to lend its securities to broker-dealers**.**

- **The Pension Fund** lends US Government and US Government Agency securities, domestic and international equity securities and international fixed income securities and receives cash and securities issued or guaranteed by the federal government as collateral for these loans. Securities received as collateral can not be pledged or sold except in the case of a borrower default. The market value of collateral must be at least 100% of the market value of the loaned securities. The Pension fund has no restriction on the amount of securities that can be lent. The Pension Fund's custodian bank indemnifies the Fund by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return securities or pay distributions thereon. The maturity of investments made with cash collateral generally did not match the maturity of securities loaned during the year or at year-end. The Pension Fund experienced $.5 million in unrealized loss from securities transactions during the year and had no credit risk exposure at June 30.

- The **PGWRR** lends US Treasury, federal agency, and DTC-eligible corporate debt and equity securities and receives cash, US Treasury and federal agency securities and letters of credit as collateral for these loans. Securities received as collateral can not be pledged or sold except in the case of a borrower default. The market value of collateral must be 102% of the total of the market value of loaned securities plus any accrued interest. The **PGWRR** placed no restrictions on the amount of securities that could be lent. The **PGWRR's** custodian bank does not indemnify the **PGWRR** in the event of a borrower default except in cases involving gross negligence or willful misconduct on the custodian's part. Maturity of investments made with cash collateral is generally matched with maturity of loans. The **PGWRR** experienced no losses and had no credit risk exposure at June 30.

## 3. AMOUNTS HELD BY FISCAL AGENT

Two of the City's component units (**PAID** and **PRA**) have issued debt that, in accordance with GASB Interpretation #2, is considered conduit debt. Therefore, no asset related to the bond proceeds or liability related to the bonds is shown on their respective financial statements. However, since the City, through various agreements is responsible for the debt, the proceeds of the issuance are shown as assets of the City.

### A. GOVERNMENTAL FUNDS

General Fund - Consists of cash and investment balances related to the net proceeds of **PAID'**s Sports Stadium Financing Lease Revenue Bonds Series A & B of 2007, **PAID**'s Central Library Project Financing Lease Revenue Bonds Series 2005, **PAID**'s Cultural and Commercial Corridor Lease Revenue Bonds Series 2006 and **PAID** City Service Agreement Refunding Revenue Bonds Series 2012.

Grants Revenue Fund - Consists of cash and investment balances related to the net proceeds of the **PRA's** City of Philadelphia Neighborhood Transformation Initiative Bonds.

### B. PROPRIETARY FUNDS

Aviation Fund consists of cash and investment balances related to the net proceeds of **PAID**'s Airport Revenue Bonds, Series 1998A and 2001A. The proceeds are held by a fiscal agent and disbursed at the City's direction to pay for airport related capital improvements.

## 4. INTERFUND RECEIVABLES AND PAYABLES

### A. PRIMARY GOVERNMENT

Interfund receivable and payable balances among Primary Government funds at year-end are the result of the time lag between the dates that interfund goods and services are provided, the date the transactions are recorded in the accounting system and the date payments between funds are made. All balances are expected to be settled during the subsequent year. Interfund receivable and payable balances within the Primary Government at year-end are as follows:

| (Amounts in Thousands of USD) | Interfund Receivables Due to: | | | | |
|---|---|---|---|---|---|
| | | Non major Governmental | | | |
| | General | Special Revenue | Debt Service | Other Funds | Total |
| **Interfund Payables Due From:** | | | | | |
| General | - | - | - | 699 | 699 |
| Non major Special Revenue Funds | 16,351 | - | - | 17 | 16,368 |
| Non major Debt Service Funds | - | - | - | - | - |
| **Total** | 16,351 | - | - | 716 | 17,067 |

### B. COMPONENT UNITS

Interfund receivables and payables between the Primary Government and its Component Units at year-end are the result of the time lag between the dates that interfund goods and services are provided, the date the transactions are recorded in the accounting system and the date payments between funds are made. All interfund balances are expected to be settled during the subsequent year. Interfund receivable and payable balances among the Primary Government and Component Units at year-end are as follows:

| (Amounts in Thousands of USD) | Receivables Due to: | | | | | |
|---|---|---|---|---|---|---|
| | General | Aviation | CBH | PRA | Timing Difference | Total |
| **Payables Due From:** | | | | | | |
| Behavioral Health | - | - | 48,638 | - | - | 48,638 |
| Grants Revenue | - | - | - | 1,371 | - | 1,371 |
| Non-major Funds | - | - | - | 150 | - | 150 |
| PPA | 8,146 | 22,700 | - | - | (739) | 30,107 |
| PAID | 39,130 | - | - | - | (27,463) | 11,667 |
| PRA | - | - | - | - | - | - |
| PGW | - | | | | - | - |
| School District of Phila | 4,500 | | | | - | 4,500 |
| Timing Difference | - | (22,700) | 3,491 | 3,417 | - | (15,792) |
| **Total** | 51,776 | - | 52,129 | 4,938 | (28,202) | 80,641 |

## 5. CAPITAL ASSET ACTIVITY

### A. PRIMARY GOVERNMENT

Capital Asset activity for the year ended June 30 was as follows:

(Amounts In Millions of USD)

| Governmental Activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | 779 | 8 | - | 787 |
| Fine Arts | 1 | - | - | 1 |
| Construction In Process | 96 | 10 | (96) | 10 |
| Total capital assets not being depreciated | 876 | 18 | (96) | 798 |
| Capital assets being depreciated: | | | | |
| Buildings | 1,881 | 158 | - | 2,039 |
| Other Improvements | 313 | 7 | - | 320 |
| Equipment | 479 | 22 | (20) | 481 |
| Infrastructure | 1,408 | 67 | - | 1,475 |
| Transit | 292 | - | - | 292 |
| Total capital assets being depreciated | 4,373 | 254 | (20) | 4,607 |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,202) | (61) | - | (1,263) |
| Other Improvements | (217) | (9) | - | (226) |
| Equipment | (382) | (27) | 13 | (396) |
| Infrastructure | (1,013) | (38) | - | (1,051) |
| Transit | (216) | (4) | - | (220) |
| Total accumulated depreciation | (3,030) | (139) | 13 | (3,156) |
| Total capital assets being depreciated, net | 1,343 | 115 | (7) | 1,451 |
| Governmental activities capital assets, net | 2,219 | 133 | (103) | 2,249 |

(Amounts In Millions of USD)

| Business-type activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | 126 | 26 | - | 152 |
| Intangible Assets | - | - | - | - |
| Construction In Process | 582 | 197 | (81) | 698 |
| Total capital assets not being depreciated | 708 | 223 | (81) | 850 |
| Capital assets being depreciated: | | | | |
| Buildings | 3,039 | 24 | (5) | 3,058 |
| Other Improvements | 244 | 13 | - | 257 |
| Equipment | 122 | 22 | (17) | 127 |
| Intangible Assets | 12 | 1 | - | 13 |
| Infrastructure | 2,963 | 119 | (8) | 3,074 |
| Total capital assets being depreciated | 6,380 | 179 | (30) | 6,529 |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,506) | (88) | 5 | (1,589) |
| Other Improvements | (123) | (13) | - | (136) |
| Equipment | (98) | (6) | 1 | (103) |
| Intangible Assets | (5) | (1) | - | (6) |
| Infrastructure | (1,649) | (79) | 7 | (1,721) |
| Total accumulated depreciation | (3,381) | (187) | 13 | (3,555) |
| Total capital assets being depreciated, net | 2,999 | (8) | (17) | 2,974 |
| Business-type activities capital assets, net | 3,707 | 215 | (98) | 3,824 |

Depreciation expense was charged to the programs of the primary government as follows:

| | (Amounts in Millions of USD) |
|---|---|
| **Governmental Activities:** | |
| Economic Development | 3 |
| Transportation: | |
| Streets & Highways | 39 |
| Mass Transit | 5 |
| Judiciary and Law Enforcement: | |
| Police | 9 |
| Prisons | 6 |
| Courts | 1 |
| Conservation of Health: | |
| Health Services | 3 |
| Cultural and Recreational: | |
| Recreation | 11 |
| Parks | 10 |
| Libraries and Museums | 9 |
| Improvements to General Welfare: | |
| Social Services | 1 |
| Service to Property: | |
| Fire | 6 |
| General Management & Support | 36 |
| Total Governmental Activities | 139 |
| **Business-Type Activities:** | |
| Water and Sewer | 89 |
| Aviation | 98 |
| Total Business Type Activities | 187 |

## B. DISCRETELY PRESENTED COMPONENT UNITS

The following schedule reflects the combined activity in capital assets for the discretely presented component units for the year ended June 30.

(Amounts In Millions of USD)

| Governmental Activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | 132 | - | - | 132 |
| Construction In Process | 58 | - | (30) | 28 |
| Art | 8 | - | - | 8 |
| Total capital assets not being depreciated | 198 | - | (30) | 168 |
| Capital assets being depreciated: | | | | |
| Buildings | 1,753 | 45 | - | 1,798 |
| Other Improvements | 1,185 | 45 | - | 1,230 |
| Intangible Assets | 46 | 1 | - | 46 |
| Equipment | 272 | 0 | (16) | 257 |
| Infrastructure | 1 | - | - | 1 |
| Total capital assets being depreciated | 3,256 | 90 | (16) | 3,331 |
| Less accumulated depreciation for: | | | | |
| Buildings | (610) | (32) | - | (642) |
| Other Improvements | (670) | (58) | - | (728) |
| Intangible Property | (35) | (2) | | (37) |
| Equipment | (181) | (27) | 29 | (179) |
| Infrastructure | (1) | - | - | (1) |
| Total accumulated depreciation | (1,496) | (119) | 29 | (1,586) |
| Total capital assets being depreciated, net | 1,761 | (29) | 13 | 1,745 |
| Capital assets, net | 1,959 | (29) | (17) | 1,913 |
| **Business-type Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | 39 | 1 | - | 40 |
| Fine Arts | (9) | - | - | (9) |
| Construction In Process | 71 | 94 | (108) | 57 |
| Total capital assets not being depreciated | 101 | 95 | (108) | 88 |
| Capital assets being depreciated: | | | | |
| Buildings | 647 | 32 | - | 679 |
| Other Improvements | 25 | 1 | (1) | 25 |
| Equipment | 441 | 19 | (8) | 452 |
| Infrastructure | 1,482 | 104 | (22) | 1,564 |
| Total capital assets being depreciated | 2,595 | 156 | (31) | 2,720 |
| Less accumulated depreciation for: | | | | |
| Buildings | (269) | (21) | 1 | (289) |
| Other Improvements | (28) | (2) | - | (30) |
| Equipment | (149) | (29) | 4 | (174) |
| Infrastructure | (674) | (61) | 20 | (715) |
| Total accumulated depreciation | (1,120) | (113) | 25 | (1,208) |
| Total capital assets being depreciated, net | 1,475 | 43 | (6) | 1,512 |
| Capital assets, net | 1,576 | 138 | (114) | 1,600 |

## 6. NOTES PAYABLE

The Aviation Fund established a commercial paper (CP) program, which closed on January 1, 2013, in the amount of $350 million to provide funding for capital projects currently approved by the airlines. CP is a short-term financing tool with a maximum maturity of 270 days. The Philadelphia International Airport's CP Program will enable projects to be financed on an as-needed basis; lower the Airport's cost of borrowing, as amounts drawn can be closely matched to our capital cash flow requirements; and limit negative arbitrage during the construction period for projects. CP Notes will be "rolled over" until long-term bonds are issued to refund the outstanding commercial paper.

**PGW**, pursuant to the provisions of certain ordinances and resolutions, may sell short-term notes in a principal amount which, together with the interest thereon, will not exceed $150 million outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and a subordinated security interest in the **PGW**'s revenues. There were no notes outstanding at year-end (August 31, 2013).

In prior years, **CCP** has entered into various loan agreements with the State Public School Building Authority and the Hospitals & Higher Education Facilities Authority for loans totaling approximately $86 million. The loans have interest rates ranging from 1.198% to 6.25%, mature through 2028 and will be used for various capital projects, the upgrading of network infrastructures and various deferred maintenance cost.

The combined principal balance outstanding at year-end is as follows:

| Period | | Amount |
|---|---|---|
| 2014 | $ | 8,498,508 |
| 2015 | | 6,160,293 |
| 2016 | | 6,170,886 |
| 2017 | | 6,147,857 |
| 2018 | | 5,980,767 |
| 2019 | | 5,329,480 |
| 2020-2024 | | 27,688,101 |
| 2025-2028 | | 20,040,000 |
| Total | $ | 86,015,892 |

**PPA**, in prior years, borrowed a total of $34 million in the form of bank notes ranging in maturity from 5-15 years and in interest rates from 4.06 to 6.5%. The proceeds of these loans were used to finance various capital projects, the acquisition of capital assets, building improvements, installation of Multi-Space parking meters and the development of a records department.

The total outstanding principal balance of these notes at March 31, 2013 was $5,926,559 subject to the following repayment schedule:

| Fiscal Year | | Amount |
|---|---|---|
| 2014 | $ | 3,994,001 |
| 2015 | | 484,569 |
| 2016 | | 504,512 |
| 2017 | | 525,584 |
| 2018 | | 417,893 |
| Total | $ | 5,926,559 |

## 7. DEBT PAYABLE

### A. PRIMARY GOVERNMENT LONG-TERM DEBT PAYABLE

#### (1) Governmental Debt Payable

The City is subject to a statutory limitation established by the Commonwealth of Pennsylvania for bonded indebtedness (General Obligation Bonds) payable principally from property taxes. As of June 30, 2013 the statutory limit for the City is $1.7 billion, the General Obligation Debt net of deductions authorized by law is $1.6 billion, leaving a legal debt borrowing capacity of $52.1 million. Termination Compensation costs and Worker's Compensation claims are paid by whichever governmental fund incurs them. Indemnity claims, Net Pension Obligation and OPEB are typically paid by the General Fund.

The following schedule reflects the changes in long-term liabilities for the fiscal year:

(Amounts In Millions of USD)

| Governmental Activity | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | | | | | |
| Term Bonds | 973.8 | - | (66.4) | 907.4 | 71.0 |
| Refunding Bonds | 821.8 | - | (16.8) | 805.0 | 33.4 |
| Serial Bonds | 233.6 | - | (31.7) | 201.9 | 17.0 |
| Add: Bond Premium | 107.8 | - | (10.4) | 97.4 | - |
| Less: Deferred Amounts | | | | | |
| Unamortized Issuance Expenses | (23.3) | - | 1.3 | (22.0) | - |
| Unamortized Discount | (3.7) | - | 0.2 | (3.5) | - |
| Total Bonds Payable | 2,110.0 | - | (123.8) | 1,986.2 | 121.4 |
| Obligations Under Lease & Service Agreements | | | | | |
| Pension Service Agreement | 1,379.3 | 54.3 | (262.2) | 1,171.4 | 96.2 |
| Neighborhood Transformation | 227.6 | - | (7.6) | 220.0 | 7.6 |
| One Parkway | 43.5 | - | (2.1) | 41.4 | 2.1 |
| Sports Stadium | 325.6 | - | (11.5) | 314.1 | 12.0 |
| Library | 8.2 | - | (0.5) | 7.7 | 0.5 |
| Cultural Corridor Bonds | 119.4 | - | (3.6) | 115.8 | 3.8 |
| City Service Agreement | - | 531.0 | (107.7) | 423.3 | 123.5 |
| Indemnity Claims | 51.6 | 45.1 | (33.3) | 63.4 | 21.7 |
| Worker's Compensation Claims | 279.4 | 46.3 | (59.2) | 266.5 | 33.4 |
| Termination Compensation Payable | 209.7 | 29.1 | (19.5) | 219.3 | 9.7 |
| Net Pension Obligation | 216.4 | - | (35.3) | 181.1 | - |
| OPEB Obligation | 109.0 | 57.3 | - | 166.3 | - |
| Leases | 40.6 | - | (11.7) | 28.9 | 12.1 |
| Governmental Activity Long-term Liabilities | 5,120.3 | 763.1 | (678.0) | 5,205.4 | 444.0 |

The beginning balance of bonds payable changed due to the implementation of GASB Statement No. 65 see Note III.13.A

In addition, both blended component units have debt that is classified on their respective balance sheets as General Obligation debt payable. The following schedule summarizes the General Obligation Bonds outstanding for the City, the **PMA** and **PICA**:

(Amounts In Millions of USD)

| | Interest Rates | | | | Principal | Due Dates | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Governmental Funds:** | | | | | | | | | |
| City | 2.00 % | to | 7.125 % | | 1,277.6 | Fiscal | 2014 | to | 2042 |
| PMA | 2.00 % | to | 7.50 % | | 227.4 | Fiscal | 2014 | to | 2039 |
| PICA | 4.00 % | to | 5.00 % | | 409.3 | Fiscal | 2014 | to | 2023 |
| | | | | | 1,914.3 | | | | |

- Effective March 1, 2013 the city remarketed the General Obligation Multi-Modal Refunding Bonds, Series 2009B ($100.0 million), and entered into a letter of credit substitution with Bank of New York Mellon (BNY). The 2009B Bonds are also payable from the proceeds of funds drawn by the U.S. Bank National Association, as fiscal agent, under an irrevocable, direct-pay letter of credit, issued by BNY. The Letter of Credit (LOC) will permit the fiscal agent to draw up to $101.1 million for principal and unpaid interest on the 2009B bonds and will expire on March 7, 2016, unless earlier cancelled, terminated or renewed. The LOC will constitute both a Credit Facility and Credit Provider and BNY a Liquidity Facility and Liquidity Provider for the 2009B bonds.

- In Fiscal Year 2013, the serial bonds ($165.1 million) for **PMA** were reclassified to term bonds. This reclassification supports PMA's debt presentation.

- As of June 30, 2013, **PMA's** Statement of Net Position disclosed $11.04 million of accretion to its bond principal payments for fiscal years 2014-2015. Capitalized interest rates entirely to MSB 1990 Series Capital Appreciation Bonds. Accretion value represents cumulative compounded interest due and payable at bond maturity.

The City has General Obligation Bonds authorized and un-issued at year-end of $390.7 million for Governmental Funds. The debt service through maturity for the Governmental GO Debt is as follows:

(Amounts In Millions of USD)

| | City Fund | | Blended Component Units | | | |
|---|---|---|---|---|---|---|
| **Fiscal** | **General Fund** | | **PMA** | | **PICA** | |
| **Year** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| 2014 | 50.7 | 66.1 | 25.1 | 12.5 | 45.6 | 20.4 |
| 2015 | 52.4 | 63.4 | 26.6 | 11.0 | 47.7 | 18.1 |
| 2016 | 52.0 | 60.8 | 20.6 | 9.6 | 49.9 | 15.7 |
| 2017 | 54.7 | 58.2 | 21.6 | 8.6 | 52.2 | 13.3 |
| 2018 | 57.2 | 55.3 | 27.7 | 7.3 | 45.4 | 10.6 |
| 2019-2023 | 293.6 | 231.9 | 26.3 | 28.3 | 168.5 | 23.2 |
| 2024-2028 | 329.6 | 152.0 | 21.0 | 22.9 | - | - |
| 2029-2033 | 255.1 | 76.5 | 21.7 | 16.4 | - | - |
| 2034-2038 | 84.4 | 31.0 | 29.7 | 8.3 | - | - |
| 2039-2043 | 47.9 | 5.2 | 7.1 | 0.5 | - | - |
| Totals | 1,277.6 | 800.4 | 227.4 | 125.4 | 409.3 | 101.3 |

The debt service through maturity for Lease and Service Agreements is as follows:

(Amounts In Millions of USD)

**Lease & Service Agreements**

| Fiscal Year | Pension Service Agreement Principal | Pension Service Agreement Interest | Neighborhood Transformation Principal | Neighborhood Transformation Interest | One Parkway Principal | One Parkway Interest | Sports Stadium Principal | Sports Stadium Interest |
|---|---|---|---|---|---|---|---|---|
| 2014 | 91.5 | 34.5 | 7.6 | 10.9 | 2.1 | 2.0 | 12.0 | 13.3 |
| 2015 | 90.2 | 40.8 | 7.9 | 10.6 | 2.3 | 1.8 | 12.4 | 12.7 |
| 2016 | 87.6 | 47.1 | 8.3 | 10.2 | 2.4 | 1.7 | 13.0 | 12.0 |
| 2017 | 82.0 | 52.7 | 8.7 | 9.8 | 2.5 | 1.6 | 13.6 | 11.3 |
| 2018 | 76.8 | 57.9 | 9.2 | 9.3 | 2.6 | 1.5 | 14.1 | 10.5 |
| 2019-2023 | 239.2 | 294.6 | 53.2 | 39.4 | 14.9 | 5.6 | 80.2 | 41.8 |
| 2024-2028 | 279.1 | 188.5 | 70.8 | 24.7 | 14.6 | 1.8 | 98.8 | 24.0 |
| 2029-2033 | 225.0 | 7.4 | 54.3 | 5.5 | - | - | 70.0 | 4.2 |
| Totals | 1,171.4 | 723.5 | 220.0 | 120.4 | 41.4 | 16.0 | 314.1 | 129.8 |

| Fiscal Year | City Service Ageement Principal | City Service Ageement Interest | Cultural Corridors Principal | Cultural Corridors Interest | Central Library Principal | Central Library Interest |
|---|---|---|---|---|---|---|
| 2014 | 123.5 | 13.3 | 3.8 | 5.4 | 0.5 | 0.3 |
| 2015 | - | 11.8 | 3.9 | 5.3 | 0.5 | 0.3 |
| 2016 | - | 11.8 | 4.2 | 5.1 | 0.5 | 0.3 |
| 2017 | - | 11.7 | 4.4 | 4.9 | 0.6 | 0.2 |
| 2018 | - | 11.7 | 4.6 | 4.6 | 0.6 | 0.2 |
| 2019-2023 | 106.9 | 56.4 | 26.8 | 19.4 | 3.4 | 0.8 |
| 2024-2028 | 192.9 | 15.4 | 34.3 | 11.8 | 1.6 | 0.1 |
| 2029-2033 | - | - | 33.8 | 3.1 | - | - |
| Totals | 423.3 | 132.1 | 115.8 | 59.6 | 7.7 | 2.2 |

### (2) Business Type Debt Payable

The following schedule reflects changes in long-term liabilities for Business-Type Activities for the fiscal year:

(Amounts In Millions of USD)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Business-Type Activity** | | | | | |
| Bonds Payable | | | | | |
| Revenue Bonds | 3,248.0 | 85.8 | (258.6) | 3,075.2 | 186.7 |
| Add: Bond Premium | 113.8 | 12.8 | (16.0) | 110.6 | - |
| Total Bonds Payable | 3,361.8 | 98.6 | (274.6) | 3,185.8 | 186.7 |
| Indemnity Claims | 7.0 | 2.1 | (4.3) | 4.8 | - |
| Worker's Compensation Claims | 17.8 | 8.1 | (4.6) | 21.3 | - |
| Termination Compensation Payable | 15.8 | 4.5 | (2.7) | 17.6 | - |
| Net Pension Obligation | 27.5 | - | (4.3) | 23.2 | - |
| Arbitrage | 0.3 | - | - | 0.3 | - |
| Business-type Activity Long-term Liabilities | 3,430.2 | 113.3 | (290.5) | 3,253.0 | 186.7 |

The beginning balance of bonds payable changed due to the implementation of GASB Statement No. 65 see Note III.13.A

The Enterprise Funds have no debt that is classified on their respective balance sheets as General Obligation debt payable as of June 30, 2013.

Also, the City has General Obligation Bonds authorized and un-issued at year end of $303.6 million for the Enterprise Funds.

The City's Enterprise Funds have issued debt payable from the revenues of the particular entity. The following schedule summarizes the Revenue Bonds outstanding at year end:

(Amounts In Millions of USD)

| | Interest Rates | | | | Principal | Due Dates | | | |
|---|---|---|---|---|---|---|---|---|---|
| Water Fund | 0.05 % | to | 5.75 % | | 1,759.8 | Fiscal | 2014 | to | 2041 |
| Aviation Fund | 2.00 % | to | 5.375 % | | 1,315.5 | Fiscal | 2014 | to | 2040 |
| Total Revenue Debt Payable | | | | | 3,075.3 | | | | |

- In November 2012, the City issued Water and Wastewater Revenue Refunding Bonds, Series 2012. The bonds were issued in the amount of $70.4 million with interest rates ranging from 1% to 5% and have a maturity date of 2028. The plan is to refund all of the City's outstanding Water and Wastewater Revenue Bonds, Series 2001A and Series 2001B maturing after November 1, 2012 and pay the costs of issuance related to the Bonds. The aggregate difference in debt service between the refunding debt and the refunded debt is $13.2 million. This refunding transaction resulted in a net economic gain of $12.7 million.

- In July 2010, the City of Philadelphia Water Department received approval from the Pennsylvania State Infrastructure Financing Authority ("PENNVEST") for the Green Infrastructure Project (Series 2010B), bringing the total financing from PENNVEST to $214.9 million. During fiscal year 2013, PENNVEST drawdowns totaled $15.4 million, which represents an increase in bond issuances. The funding is through low interest loans of 1.193% during the construction period and for the first five years of amortization (interest only payment are due during the construction period up to three years) and 2.107% for the remaining fifteen years. Individual loan information is as follows:

| Date | Series | Maximum Loan Amount | Estimated Project Costs | Amt Requested thru 6/30/2013 | Amt Rec'd Yes/No | Purpose |
|---|---|---|---|---|---|---|
| Oct. 2009 | 2009B | 42,886,030 | 42,339,199 | 25,908,165 | Yes | Water Plant Improvements |
| Oct. 2009 | 2009C | 57,268,193 | 56,264,382 | 40,338,440 | Yes | Water Main Replacements |
| Mar. 2010 | 2009D | 84,759,263 | 84,404,754 | 70,930,405 | Yes | Sewer Projects |
| Jul. 2010 | 2010B | 30,000,000 | 31,376,846 | 9,254,100 | Yes | Green Infrastructure Project |
| | Totals: | 214,913,486 | 214,385,181 | 146,431,110 | | |

The debt service through maturity for the Revenue Debt Payable is as follows:
(Amounts In Millions of USD)

| Fiscal | Water Fund | | Aviation Fund | |
|---|---|---|---|---|
| Year | Principal | Interest | Principal | Interest |
| 2014 | 127.5 | 75.9 | 59.2 | 65.2 |
| 2015 | 125.6 | 70.2 | 62.4 | 62.0 |
| 2016 | 137.0 | 65.6 | 60.2 | 58.6 |
| 2017 | 121.8 | 58.6 | 63.6 | 55.4 |
| 2018 | 128.6 | 53.7 | 65.9 | 52.2 |
| 2019-2023 | 292.7 | 219.5 | 331.8 | 212.2 |
| 2024-2028 | 280.5 | 162.6 | 364.1 | 128.5 |
| 2029-2033 | 290.5 | 99.2 | 143.0 | 62.3 |
| 2034-2038 | 179.7 | 41.0 | 130.6 | 26.5 |
| 2039-2043 | 75.9 | 7.1 | 34.7 | 2.6 |
| Totals | 1,759.8 | 853.4 | 1,315.5 | 725.5 |

### (3) Defeased Debt

As of the current fiscal year-end, the City had defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At year end, bonds outstanding pertaining to the following funds are considered defeased.

| | (Amounts In Millions of USD) |
|---|---|
| **Enterprise Funds:** | |
| Water Fund Revenue Bonds | 40.5 |
| | 40.5 |

### (4) Short -Term Borrowings

The City has statutory authorizations to negotiate temporary loans for periods not to extend beyond the fiscal year. The City borrows funds to pay debt service and required pension contributions due before the receipt of the real estate taxes. The city borrowed and repaid $127.0 million in Tax Revenue Anticipation Notes by June 2013 plus interest. In accordance with statute, there are no temporary loans outstanding at year-end.

| | (Amounts In Millions of USD) |
|---|---|
| **Tax Revenue Anticipation Notes:** | |
| Balance July 1, 2012 | - |
| Additions | 127.0 |
| Deletions | (127.0) |
| Balance June 30, 2013 | - |

### (5) Arbitrage Liability

The City has several series of General Obligation and Revenue Bonds subject to federal arbitrage requirements. Federal tax legislation requires that the accumulated net excess of interest income on the proceeds of these issues over interest expense paid on the bonds be paid to the federal government at the end of a five-year period. At June 30, 2013, the Aviation Fund had recorded liabilities of $0.3 million.

### (6) Derivative Instruments

Beginning in FY 2010, the City of Philadelphia adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivatives are as follows:

(amounts in thousands of USD)

| | Changes in Fair Value | | Fair Value at June 30, 2013 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| **Governmental Activities** | | | | | |
| Cash Flow Hedges: | | | | | |
| Pay fixed interest rate swaps | Deferred Outflow | 11,218 | Debt | (15,798) | 100,000 |
| | Deferred Outflow | 17,165 | Debt | (35,037) | 217,275 |
| | Deferred Outflow | 5,720 | Debt | (11,675) | 72,400 |
| **Business Type Activities:** | | | | | |
| Cash Flow Hedges: | | | | | |
| Pay fixed interest rate swaps | Deferred Outflow | 9,370 | Debt | (22,816) | 148,400 |
| | Deferred Outflow | 3,453 | Debt | (8,565) | 81,995 |

The following table displays the objective and terms of the City's hedging derivative instruments outstanding at June 30, 2013, along with the credit rating of the associated counterparty.

(amounts in thousands of USD)

| Agency | Type | Objective | Notional Amount | Effective Date | Maturity Date | Terms | Counterparty Credit Rating |
|---|---|---|---|---|---|---|---|
| City GO (a) | Pay Fixed Interest Rate Swap | Hedge changes in cash flow on the 2009 Series B bonds | 100,000 | 12/20/2007 | 8/1/2031 | City pays 3.829%; receives SIFMA Municipal Swap Index | Aa3/AA- |
| City Lease PAID (b) | Pay Fixed Interest Rate Swap | Hedge changes in cash flow on the 2007 Series B bonds | 217,275 | 10/25/2007 | 10/1/2030 | City pays 3.9713%; receives SIFMA Municipal Swap Index | Aa3/A+ |
| City Lease PAID (b) | Pay Fixed Interest Rate Swap | Hedge changes in cash flow on the 2007 Series B bonds | 72,400 | 10/25/2007 | 10/1/2030 | City pays 3.9713%; receives SIFMA Municipal Swap Index | Baa2/A- |
| Airport (c) | Pay Fixed Interest Rate Swap | Hedge changes in cash flow on the 2005 Series C bonds | 148,400 | 6/15/2005 | 6/15/2025 | Airport pays multiple fixed swap rates; receives SIFMA Municipal Swap Index | Aa3/A+ |
| Water (d) | Pay Fixed Interest Rate Swap | Hedge changes in cash flow on the 2005 Series bonds | 81,995 | 5/4/2005 | 8/1/2018 | City pays 4.53%; receives bond rate/68.5% 1 Month LIBOR | Baa2/A- |

### a. City of Philadelphia 2009B General Obligation Bond Swap

*Objective* In December, 2007, the City entered into a swap to synthetically refund all or a portion of several series of outstanding bonds. The swap structure was used as a means to increase the City's savings when compared with fixed-rate bonds at the time of issuance. The intention of the swap was to create a synthetic fixed-rate structure. On July 28, 2009, the City terminated approximately $213.5 million of the swap, fixed out the bonds related to that portion and kept the remaining portion of the swap, as well as, the related bonds as variable rate bonds backed with a letter of credit. The City paid a swap termination payment of $15.5 million to RBC.

*Terms*: The swap was originally executed with Royal Bank of Canada (RBC), commenced on December 20, 2007, and will terminate on August 1, 2031. Under the swap, the City pays a fixed rate of 3.829% and receives the SIFMA Municipal Swap Index. The payments are based on an amortizing notional schedule (with an original notional amount of $ 313.5 million). The swap confirmation was amended and restated effective August 13, 2009 to reflect the principal amount of the 2009B bonds, with all other terms remaining the same. As of June 30, 2013, the swap had a notional amount of $100 million and the associated variable rate bonds had a $100 million principal amount. The bonds mature in August, 2031.

*Fair Value*: As of June 30, 2013, the swap had a negative fair value of ($15.80 million). This means that the City would have to pay this amount to terminate the swap.

*Risk:* As of June 30, 2013, the City was not exposed to credit risk because the swap has a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase.

The swap includes an additional termination event based on credit ratings. The swap may be terminated by the City if the rating of RBC falls below Baa3 or BBB- or by RBC if the rating of the City falls below Baa3 or BBB-. There are 30-day cure periods to these termination events. However, because the City's swap payments are insured by Assured Guaranty Municipal Corp. (formerly FSA), no termination event based on the City's ratings can occur as long as Assured is rated at least A3 and A-.

As of June 30, 2013, the rates were:

| | Terms | Rates | |
|---|---|---|---|
| Interest Rate Swap | | | |
| Fixed payment to RBC under swap | Fixed | 3.82900 | % |
| Variable rate payment from RBC under swap | SIFMA | (0.06000) | % |
| Net interest rate swap payments | | 3.76900 | % |
| Variable Rate bond coupon payments | Weekly reset | 0.06000 | % |
| Synthetic interest rate on bonds | | 3.82900 | % |

*Swap payments and associated debt:* As of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same, were as follows:

| Fiscal Year Ending June 30 | Variable Rate Bonds Principal | Variable Rate Bonds Interest | Interest Rate Swaps Net | Total Interest |
|---|---|---|---|---|
| 2014 | $ - | $ 60,000 | $ 3,769,000 | $ 3,829,000 |
| 2015 | - | 60,000 | 3,769,000 | 3,829,000 |
| 2016 | - | 60,000 | 3,769,000 | 3,829,000 |
| 2017 | - | 60,000 | 3,769,000 | 3,829,000 |
| 2018 | - | 60,000 | 3,769,000 | 3,829,000 |
| 2019-2023 | - | 300,000 | 18,845,000 | 19,145,000 |
| 2024-2028 | 30,535,000 | 300,000 | 18,845,000 | 19,145,000 |
| 2029-2032 | 69,465,000 | 106,272 | 6,675,653 | 6,781,925 |
| Total: | $ 100,000,000 | $ 1,006,272 | $ 63,210,653 | $ 64,216,925 |

**b. Philadelphia Authority for Industrial Development (PAID) 2007B Swaps**

*Objective:* In October, 2007, **PAID** entered into two swaps to synthetically refund **PAID**'s outstanding Series 2001B bonds. The swap structure was used as a means to increase **PAID's** savings when compared with fixed-rate bonds at the time of issuance. The intention of the swaps was to create a synthetic fixed-rate structure.

*Terms:* The total original notional amount of the two swaps was $289.7 million which matched the principal amount of the 2007B bonds issued. One swap, with a notional amount of $217.3 million, was executed with JP Morgan Chase Bank. The other swap, with a notional amount of $72.4 million was executed with Merrill Lynch Capital Services, Inc. Both swaps commenced on October 25, 2007 and will terminate on October 1, 2030. Under the swaps, **PAID** pays a fixed rate of 3.9713% and receives the SIFMA Municipal Swap Index. The payments are based on an amortizing notional schedule. As of June 30, 2013, the swaps together had a notional amount of $289.7 million which matched the principal amount of the associated variable rate bond deal. Payments under these swaps are lease rental obligations of the City.

*Fair Value:* As of June 30, 2013, the swap with JP Morgan Chase Bank had a negative fair value of ($35.0 million) and the swap with Merrill Lynch Capital Services, Inc. has a negative fair value of ($11.7 million). This means that **PAID** would have to pay these amounts to terminate the swaps.

*Risks:* As of June 30, 2013, **PAID** was not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swaps become positive, **PAID** would be exposed to credit risk in the amount of the swaps' fair value. The City is subject to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase.

The swaps include an additional termination event based on credit ratings. The swaps may be terminated by **PAID** if the rating of the respective counterparty on the swaps falls below Baa3 or BBB- or by the respective counterparties if the underlying rating on the associated bonds falls below Baa3 or BBB-. There are 30-day cure periods to these termination events. The City's swap payments are insured by FGIC.

As of June 30, 2013, the rates for the $217.3 million notional swap with JP Morgan Chase Bank were:

| | Terms | Rates |
|---|---|---|
| Interest Rate Swap | | |
| Fixed payment to JPMorgan under Swap | Fixed | 3.97130 % |
| Variable rate payment from JPMorgan under Swap | SIFMA | (0.06000) % |
| Net interest rate swap payments | | 3.91130 % |
| Variable Rate bond coupon payments | Weighted Average Weekly resets | 0.34990 % |
| Synthetic interest rate on bonds | | 4.26120 % |

As of June 30, 2013, the rates for the $72.4 million notional swap with Merrill Lynch Capital Services, Inc. were:

| | Terms | Rates |
|---|---|---|
| Interest Rate Swap | | |
| Fixed payment to Merrill Lynch under Swap | Fixed | 3.97130 % |
| Variable rate payment from Merrill Lynch under Swap | SIFMA | (0.06000) % |
| Net interest rate swap payments | | 3.91130 % |
| Variable Rate bond coupon payments | Weekly resets | 0.34975 % |
| Synthetic interest rate on bonds | | 4.26105 % |

*Swap payments and associated debt*: As of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments for their term, assuming the current interest rates remain the same, were as follows:

| Fiscal Year Ending | Variable Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| June 30 | Principal | Interest | Swaps Net | Total Interest |
| 2014 | $ - | $ 760,241 | $ 8,498,277 | $ 9,258,518 |
| 2015 | - | 760,241 | 8,498,277 | 9,258,518 |
| 2016 | 9,745,000 | 760,241 | 8,498,277 | 9,258,518 |
| 2017 | 10,165,000 | 603,347 | 8,117,121 | 8,720,467 |
| 2018 | 10,595,000 | 439,690 | 7,719,537 | 8,159,227 |
| 2019-2023 | 60,150,000 | 597,037 | 32,016,533 | 32,613,570 |
| 2024-2028 | 74,125,000 | 254,861 | 19,205,461 | 19,460,322 |
| 2029-2031 | 52,495,000 | 55,252 | 4,163,579 | 4,218,831 |
| Total: | $ 217,275,000 | $ 4,230,910 | $ 96,717,062 | $ 100,947,971 |

*Swap payments and associated debt*: As of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments for their term, assuming the current interest rates remain the same, were as follows:

| Fiscal Year Ending June 30 | Variable Rate Bonds Principal | Variable Rate Bonds Interest | Interest Rate Swaps Net | Total Interest |
|---|---|---|---|---|
| 2014 | $ - | $ 253,219 | $ 2,831,781 | $ 3,085,000 |
| 2015 | - | 253,219 | 2,831,781 | 3,085,000 |
| 2016 | 3,245,000 | 253,219 | 2,831,781 | 3,085,000 |
| 2017 | 3,385,000 | 200,974 | 2,704,860 | 2,905,834 |
| 2018 | 3,530,000 | 146,476 | 2,572,462 | 2,718,938 |
| 2019-2023 | 20,050,000 | 198,919 | 10,669,049 | 10,867,968 |
| 2024-2028 | 24,695,000 | 84,925 | 6,399,669 | 6,484,594 |
| 2029-2031 | 17,495,000 | 18,413 | 1,387,534 | 1,405,947 |
| Total: | $ 72,400,000 | $ 1,409,364 | $ 32,228,917 | $ 33,638,281 |

**c. Philadelphia Airport Swap**

*Objective:* In April 2002, the City entered into a swaption that provided the City's Aviation Department (the Philadelphia Airport) with an up-front payment of $6.5 million. As a synthetic refunding of its 1995 Bonds, this payment approximated the present-value savings as of April, 2002, of refunding on June 15, 2005, based upon interest rates in effect at the time. The swaption gave JP Morgan Chase Bank the option to enter into an interest rate swap with the Airport whereby JP Morgan would receive fixed amounts and pay variable amounts.

*Terms*: JP Morgan exercised its option to enter into a swap on June 15, 2005, and the swap commenced on that date. Under the swap, the Airport pays multiple fixed swap rates (starting at 6.466% and decreasing over the life of the swap to 1.654%). The payments are based on an amortizing notional schedule (with an initial notional amount of $189.5 million) and when added to an assumption for remarketing, liquidity costs and cost of issuance were expected to approximate the debt service of the refunded bonds at the time the swaption was entered into. The swap's variable payments are based on the SIFMA Municipal Swap Index. If the rolling 180-day average of the SIFMA Municipal Swap Index exceeds 7.00%, JP Morgan Chase has the option to terminate the swap.

As of June 30, 2013, the swap had a notional amount of $148.4 million and the associated variable-rate bonds had a $148.4 million principal amount. The bonds' variable-rate coupons are not based on an index but on remarketing performance. The bonds mature on June 15, 2025. The swap will terminate on June 15, 2025 if not previously terminated by JP Morgan Chase.

*Fair Value*: As of June 30, 2013, the swap had a negative fair value of ($22.8 million). This means that if the swap terminated today, the Airport would have to pay this amount to JP Morgan Chase.

*Risk:* As of June 30, 2013, the Airport was not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the Airport would be exposed to credit risk in the amount of the swap's fair value. In addition, the Airport is subject to basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable bond rate, the synthetic interest rate will be greater than anticipated. The swap includes an additional termination event based on downgrades in credit ratings. The swap may be terminated by the Airport if JP Morgan's ratings fall below A- or A3, or by JP Morgan Chase if the Airport's ratings fall below BBB or Baa2. No termination event based on the Airport's ratings can occur as long as National Public Finance Guarantee Corporation (formerly MBIA) is rated at least A- or A3.

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As of June 30, 2013, the rates were:

| | Terms | Rates |
|---|---|---|
| Interest Rate Swap | | |
| Fixed payment to JP Morgan under swap | Fixed-declining | 4.98577 % |
| Variable rate payment from JP Morgan under swap | SIFMA | (0.06000) % |
| Net interest rate swap payments | | 4.92577 % |
| Variable Rate bond coupon payments | Weekly resets | 0.07000 % |
| Synthetic interest rate on bonds | | 4.99577 % |

*Swap payments and associated debt:* As of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same, were as follows.

| Fiscal Year Ending | Variable Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| June 30 | Principal | Interest | Swaps Net | Total Interest |
| 2014 | $ 8,200,000 | $ 103,880 | $ 7,309,836 | $ 7,413,716 |
| 2015 | 9,000,000 | 98,140 | 6,542,356 | 6,640,496 |
| 2016 | 9,800,000 | 91,840 | 5,779,656 | 5,871,496 |
| 2017 | 10,700,000 | 84,980 | 4,921,020 | 5,006,000 |
| 2018 | 11,400,000 | 77,490 | 4,262,830 | 4,340,320 |
| 2019-2023 | 68,100,000 | 256,900 | 10,992,930 | 11,249,830 |
| 2024-2025 | 31,200,000 | 32,900 | 844,000 | 876,900 |
| Total: | $ 148,400,000 | $ 746,130 | $ 40,652,628 | $ 41,398,758 |

**d. City of Philadelphia, 2005 Water & Sewer Swap**

*Objective*: In December, 2002, the City entered into a swaption that provided the City with an up-front payment of $4.0 million. As a synthetic refunding of all or a portion of its 1995 Bonds, this payment approximated the present value savings, as of December 2002, of a refunding on May 4, 2005. The swaption gave Citigroup (formerly of Salomon Brothers Holding Company, Inc), the option to enter into an interest rate swap to receive fixed amounts and pay variable amounts.

*Terms*: Citigroup exercised its option to enter into a swap May 4, 2005, and the swap commenced on that date. Under the terms of the swap, the City pays a fixed rate of 4.53% and receives a variable payment computed as the actual bond rate or alternatively, 68.5% of one month LIBOR, in the event the average rate on the Bonds as a percentage of the average of one month LIBOR has exceeded 68.5% for a period of more than 180 days. Citigroup is currently paying 68.5% of one month LIBOR under the swap. The payments are based on an amortizing notional schedule (with an initial notional amount of $86.1 million), and when added to an assumption for remarketing, liquidity costs and cost of issuance were expected to approximate the debt service of the refunded bonds at the time the swaption was entered into.

In May 2013, the City converted the original variable rate bonds associated with the swap to an index-based rate, terminating the existing letter of credit in the process.

As of June 30, 2013, the swap had a notional amount of $82.0 million and the associated variable-rate bond had an $82.0 million principal amount. The bonds' variable-rate coupons are based on the same index as the receipt on the swap. The bonds mature on August 1, 2018 and the related swap agreement terminates on August 1, 2018.

*Fair value*: As of June 30, 2013, the swap had a negative fair value of ($8.6 million). This means that the City would have to pay this amount if the swap terminated.

*Risk:* As of June 30, 2013 the City is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. Since the City is now receiving 68.5% of one month LIBOR, and paying 68.5% of one month LIBOR plus a fixed spread, the City is no longer exposed to basis risk or tax risk. The swap includes an additional termination event based on credit ratings. The swap may be terminated by the City if the ratings of Citigroup or its Credit Support Provider fall below A3 and A-, or by Citigroup if the rating of the City's water and wastewater revenue bonds falls below A3 or A-.There are 30-day cure periods to these termination events. However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation (formerly FSA), no termination event based on the City's water and wastewater revenue bond ratings can occur as long as Assured is rated at least A or A2.

As of June 30, 2013, the rates were:

| | Terms | Rates | |
|---|---|---|---|
| Interest Rate Swap | | | |
| Fixed payment to Citi under swap | Fixed | 4.53000 | % |
| Variable rate payment from Citi under swap | 68.5% of 1-month LIBOR | (0.13334) | % |
| Net interest rate swap payments | | 4.39666 | % |
| Variable Rate bond coupon payments | 68.5% of 1-month LIBOR + fixed | 0.13334 | % |
| Synthetic interest rate on bonds | | 4.53000 | % |

Swap payments and associated debt: As of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same, were as follows:

| Fiscal Year Ending | Variable Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| June 30 | Principal | Interest | Swaps Net | Total Interest |
| 2014 | $ 14,820,000 | $ 109,328 | $ 3,605,045 | $ 3,714,373 |
| 2015 | 15,535,000 | 89,568 | 2,953,460 | 3,043,028 |
| 2016 | 16,315,000 | 68,854 | 2,270,438 | 2,339,292 |
| 2017 | 17,145,000 | 47,101 | 1,553,122 | 1,600,223 |
| 2018 | 18,015,000 | 24,240 | 799,314 | 823,554 |
| 2019 | 165,000 | 221 | 7,253 | 7,474 |
| Total: | $ 81,995,000 | $ 339,312 | $ 11,188,632 | $ 11,527,944 |

**(7) Pension Service Agreement**

In Fiscal 1999, the Philadelphia Authority for Industrial Development issued $1.3 billion in Pension Funding Bonds. These bonds were issued pursuant to the provisions of the Pennsylvania Economic Development Financing Law and the Municipal Pension Plan Funding Standard and Recovery Act (Act 205). The bonds are special and limited obligations of **PAID**. The City entered into a Service Agreement with **PAID** agreeing to make yearly payments equal to the debt service on the bonds. **PAID** assigned its interest in the service agreement to the parties providing the financing and in accordance with GASB Interpretation #2, **PAID** treats this as conduit debt and does not include conduit debt transactions in its financial statements. The Pension Service Agreement of $1.2 billion is reflected in the City's financial statements in Other Long Term Obligations. The net proceeds of the bond sale of $1.3 billion were deposited with the Municipal Pension Fund. The deposit of the proceeds reduced the Unfunded Actuarial Accrued Liability by that same amount. The deposit resulted in reductions to the City's actuarially determined pension plan payments. The fiscal year 2013 Pension Funding Bonds liability of $1,171.4 million is reflected in the City's financial statements as another Long Term Obligation.

### (8) Neighborhood Transformation Initiative Service Agreement

In Fiscal 2004, **PRA** issued a $30.0 million City of Philadelphia NTI Taxable Revenue Bond. The **PRA** and the City plan to borrow a taxable bank line of credit (the 2003 Bond) to fund certain costs of the NTI related to the acquisition of property. The line of credit is being issued in anticipation of future long term financing. This will allow the City and **PRA** to better manage the carrying costs of unspent loan proceeds and to possibly issue a portion of the take out financing as tax exempt bonds after obtaining certain state approvals.

In March, 2005, **PRA** issued additional City of Philadelphia Neighborhood Transformation Initiative (NTI) bonds to finance a portion of the initiative previously undertaken by the Authority and the City. Taxable Revenue Bonds Series 2005A issued in the amount of $25.5 million are term bonds with interest rates ranging from 4.150% to 4.680% maturing through 2016. Qualified Revenue Bonds Series 2005B were issued in the amount of $ 44.0 million, with interest rates ranging from 4.75 through 5% and mature through 2027. Revenue Bonds Series 2005C with an interest rate of 5% were issued for $81.3 million and mature through 2031.

In Fiscal 2012, **PRA** issued $91.3 million City of Philadelphia Neighborhood Transformation Initiative (NTI) Revenue Refunding Series 2012 Bonds. These bonds were issued to refund the City of Philadelphia Revenue Bonds, Series 2002A, originally issued in the aggregate principal amount of $124 million. The bonds will be initially issued in the name of Cede & Co., as nominee for The Depository Trust Company (DTC), which will act as securities depository. The bonds are subject to optional redemption prior to maturity. Interest on the series bonds range from 2% to 5% and is payable on April 15 and October 15 each year until maturity in 2026. The fiscal year 2013 NTI Service Agreement liability of $220 million is reflected in the City's financial statements as another Long Term Obligation.

### (9) Sports Stadium Financing Agreement

In FY 2002, **PAID** issued $346.8 million in Lease Revenue Bonds Series A and B of 2001 to be used to help finance the construction of two new sports stadiums. The bonds are special limited obligations of **PAID**. The City entered into a series of lease agreements as lessee to the Authority. The lease agreements are known as (1) the Veterans Stadium Sublease, (2) the Phillies' Prime Lease and (3) the Eagles Prime Lease. **PAID** assigned its interest in the lease agreements to the parties providing the financing and in accordance with GASB Interpretation #2, **PAID** treats this as conduit debt and therefore does not include these transactions on its financial statements.

In October, 2007 **PAID** issued Lease Revenue Refunding Bonds Series A and B of 2007. The proceeds from the bonds were used to refund the Series 2001B Stadium Bonds. **PAID** assigned its interest in the lease agreements to the parties providing the financing and in accordance with GASB Interpretation #2, **PAID** treats this as conduit debt and therefore does not include these transactions on its financial statements. In fiscal 2013, the Sports Stadium Financing Agreement liability of $314.1 million is reflected in the City's financial statements as Other Long Term Liabilities.

### (10) Cultural and Commercial Corridors Program Financing Agreement

In December, 2006, **PAID** issued $135.5 million in Revenue Bonds, Series A and B. The proceeds from the bonds will be used to finance a portion of the cost of various commercial and cultural infrastructure programs and administrative and bond issuance cost. The City and **PAID** signed a service agreement, whereby **PAID** manages a portion of the funds and the City makes payments equal to the yearly debt service. **PAID** will distribute some of the proceeds and some will flow through the City's capital project fund. In accordance with GASB Interpretation #2, **PAID** treats this as conduit debt, and therefore, does not include these transactions in its statements. In fiscal 2013 the liability of $115.8 million is reflected in the City's financial statements as Other Long Term Liabilities.

### (11) City Service Agreement

In October 2012, **PAID** issued City Service Agreement Revenue Bonds, Series 2012 in the amount of $231.2 million. The bonds mature on April 1, 2013 ($107.7 million) and April 1, 2014 ($123.5 million). **PAID** issued the bonds at the request of the City of Philadelphia and the proceeds will be used to finance the early repayment of the City's Deferred Funding Obligation Bond in the amount of $230 million and payment of the costs of issuance of the Bonds. The bond is payable as set forth in the Service Agreement solely from revenues of the City. The debt service payments began in 2013. In fiscal 2013 the liability of $123.5 million is reflected in the City's financial statements as Other Long Term Liabilities.

In December 2012, **PAID** issued City Service Agreement Refunding Revenue Bonds, Series 2012 in the amount of 299.8 million. The bonds were issued as term Bonds with interest rates of 3.664% ($42.2 million) and 3.964% ($257.6 million). The term bonds have a maturity date of April 15, 2026. The bonds were issued to refund outstanding Pension Funding Bonds Series 1999B, fund interest on the Bonds through April 15, 2020, make a deposit to the City Retirement System and pay the cost of issuance of the Bonds. The bond is payable as set forth in the Service Agreement solely from revenues of the City. The debt service payments begin in 2021. The reacquisition price exceeded the net carrying value of the old debt by $23.1 million. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The portion of the Series 1999B Bonds that were refunded are considered defeased and the liability for those bonds has been removed from the Statement of Net Position.

### (12) Forward Purchase Agreements

On June 6, 2000 PICA entered into a debt service reserve forward delivery agreement, which would begin on June 15, 2010 and expires on June 15, 2023. **PICA** received a premium of $1,970,000 on June 6, 2000 for the debt service reserve fund in exchange for future earnings from the debt service reserve fund investments. The premium amounts were deferred and are being recognized ratably as revenue over the term of respective agreements.

### (13) Net Pension Liability

Net Pension Liabilities at June 30, 2012 was $216.4 million and $27.5 million for the Governmental and Business Type Activities, respectively. The decrease in the Governmental Activities' Net Pension Obligations (NPO) during fiscal year 2013 of $35.3 million resulted in Net Pension Liabilities of $181.1 million. During FY 2013, the Business Type Activities' NPO decreased by $4.3 million resulting in a Net Pension Liability of $23.2 million.

## B. COMPONENT UNIT LONG-TERM DEBT PAYABLE

### (1) Governmental Debt Payable

The School District has debt that is classified as General Obligation debt payable. The General Obligation Bonds outstanding at year end total $3,295 million in principal, with interest rates from 2.0% to 6.765% and have due dates from 2014 to 2040. The following schedule reflects the changes in long-term liabilities for the School District:

(Amounts in Millions of USD)

| Governmental Activities | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | 3,144.2 | 265.0 | (114.2) | 3,295.0 | 113.7 |
| Add: Bond Premium | 100.9 | 36.9 | (8.9) | 128.9 | 9.7 |
| Less: Bond Refunding Losses | (167.3) | - | 13.2 | (154.1) | (13.2) |
| Less: Bond Discounts | (10.3) | - | 0.5 | (9.8) | (0.5) |
| Total Bonds Payable | 3,067.5 | 301.9 | (109.4) | 3,260.0 | 109.7 |
| Termination Compensation Payable | 253.5 | 19.4 | (67.5) | 205.4 | 38.8 |
| Severance Payable | 166.9 | 2.1 | (36.5) | 132.5 | 17.3 |
| Interfund Loan | 7.1 | - | (3.0) | 4.1 | - |
| Other Liabilities | 136.5 | 33.8 | (37.8) | 132.5 | 37.8 |
| Incurred But Not Reported (IBNR) Payable | 12.0 | 0.5 | - | 12.5 | 12.5 |
| Deferred Reimbursement | 45.3 | - | - | 45.3 | 45.3 |
| DHS Liability | 4.0 | - | (0.5) | 3.5 | 0.5 |
| OPEB Liability | 0.1 | - | - | 0.1 | - |
| Arbitrage Liability | 0.3 | 0.3 | - | 0.6 | 0.3 |
| NFS Federal Liability | - | 2.5 | (0.1) | 2.4 | 0.8 |
| Early Retirement Incentive | 11.4 | - | (11.4) | - | - |
| Total | 3,704.6 | 360.5 | (266.2) | 3,798.9 | 263.0 |

Debt service to maturity on the School District's general obligation bonds and lease rental debt at year end is summarized as follows:

(Amounts In Millions of USD)

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2014 | 117.4 | 155.3 |
| 2015 | 119.0 | 146.4 |
| 2016 | 125.9 | 140.9 |
| 2017 | 130.1 | 135.4 |
| 2018 | 132.0 | 129.4 |
| 2019-2023 | 716.9 | 555.5 |
| 2024-2028 | 786.0 | 400.4 |
| 2029-2033 | 847.6 | 223.1 |
| 2034-2038 | 272.6 | 49.4 |
| 2039-2040 | 47.5 | 3.5 |
| Totals | 3,295.0 | 1,939.3 |

**(2) Business Type Debt Payable**

Several of the City's Proprietary Type Component Units have issued debt payable from the revenues of the particular entity. The following schedule summarizes the Revenue Bonds outstanding at year end:

(Amounts In Millions of USD)

| | Interest Rates | | | | | Principal | | Due Dates | | |
|---|---|---|---|---|---|---|---|---|---|---|
| PGW | 2.00 | % | to | 5.38 | % | 1,065.7 | Fiscal | 2015 | to | 2040 |
| PPA | 3.00 | % | to | 5.25 | % | 167.1 | Fiscal | 2014 | to | 2030 |
| PRA | 4.55 | % | to | 4.75 | % | 14.9 | Fiscal | 2017 | to | 2028 |
| Total Revenue Debt Payable | | | | | | 1,247.7 | | | | |

The debt service through maturity for the Revenue Debt Payable of Component Units is as follows:

(Amounts in Millions of USD)

| Fiscal | Philadelphia Gas Works † | | Philadelphia Parking Authority | | Philadelphia Redevelopment Authority | |
|---|---|---|---|---|---|---|
| Year | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | 49.8 | 49.2 | 11.0 | 8.1 | - | 0.7 |
| 2015 | 51.0 | 46.8 | 11.4 | 7.6 | - | 0.7 |
| 2016 | 49.1 | 44.1 | 11.9 | 7.0 | - | 0.7 |
| 2017 | 49.9 | 41.7 | 12.6 | 6.4 | 1.8 | 0.7 |
| 2018 | 49.3 | 39.2 | 13.2 | 5.7 | - | 0.7 |
| 2019-2023 | 260.6 | 160.8 | 68.6 | 18.7 | - | 3.1 |
| 2024-2028 | 268.3 | 101.0 | 33.1 | 4.6 | 13.1 | 2.5 |
| 2029-2033 | 142.6 | 51.4 | 5.3 | 0.1 | - | - |
| 2034-2038 | 126.7 | 18.8 | - | - | - | - |
| 2039-2040 | 18.4 | 1.5 | - | - | - | - |
| Totals | 1,065.7 | 554.5 | 167.1 | 58.2 | 14.9 | 9.1 |

† - Gas Works amounts are presented as of its fiscal year ended August 31, 2013

**(3) Defeased Debt**

At year end, defeased bonds are outstanding from the following Component Units of the City as shown below:

| | (Amounts In Millions of USD) |
|---|---|
| Philadelphia Gas Works † | 32.5 |
| School District of Philadelphia | 106.5 |
| Total | 139.0 |

† - Gas Works amounts are presented as of August 31, 2013

The investments held by the trustee and the defeased bonds are not recognized on **PGW**'s balance sheets in accordance with the terms of the Indentures of Defeasance. The investments pledged for the redemption of the defeased debt have maturities and interest payments scheduled to coincide with the trustee cash requirements for debt service.

The assets pledged, primarily noncallable U.S. Government securities, had a market value of $34.1 million at August 31, 2013, bearing interest on face value from 0.0% to 7.74%.

As in prior years, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. As such, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements. As of June 30, 2013, $91.0 million of bonds outstanding are considered to be totally defeased and the liability has been removed from long-term liabilities.

In addition, the QZAB bond Series 2004E of $19.3 million, issued September 2004, and due September 1, 2018 is considered partially defeased in substance for accounting and financial reporting purposes. The School District irrevocably places $1.4 million in trust with its fiscal agent each September 1st. These amounts are invested in a forward purchase agreement to be used solely for satisfying a scheduled payment of the defeased debt. As of June 30, 2013, $11.0 million is considered partially defeased in substance for accounting and financial reporting purposes.

The QZABs bond Series 2007C and 2007D of $13.5 and $28.2 million, respectively, were issued December 28, 2007, and due December 28, 2022 are considered partially defeased in substance for accounting and financial reporting purposes. The School District irrevocably places $0.9 million in trust with its fiscal agent each December 15th for Series 2007C. These amounts are invested in a forward purchase agreement to be used solely for satisfying scheduled payments of the defeased debt. As of June 30, 2013, $4.5 million is considered partially defeased in substance for accounting and financial reporting purposes.

### (4) Arbitrage

Federal arbitrage regulations are applicable to any issuer of tax-exempt bonds. It is necessary to rebate arbitrage earnings when the investment earnings on the bond proceeds from the sale of tax-exempt securities exceed the bond yield paid to investors. As of June 30, 2013, the arbitrage rebate calculation indicates a liability totaling $265,502 related to the Series A and B Bonds of 2006 issued through the State Public School Building Authority. This liability will continue to decrease since the project funds are no longer earning above the bond yield. The School District will continue to perform an annual audit rebate calculation until all funds have been expended. The actual amount payable may be less than the amount recorded as a liability as of June 30, 2013.

The School District has reserved $265,502 under the fund balance of the Capital Projects Fund. In addition, a contingent liability for this amount has been accounted for in the governmental activities column of the government-wide statement of net position.

### (5) Derivative Instruments

#### a. PGW Interest Rate Swap Agreement

In January 2006, the City entered into a fixed rate payer, floating rate receiver interest rate swap to create a synthetic fixed rate for the Sixth Series Bonds. The interest rate swap was used to hedge interest rate risk.

The swaps have a maturity date of August 1, 2031 and require the City to pay a fixed rate of 3.6745% and receive a variable rate equal to 70.0% of one month LIBOR until maturity.

In August 2009, the City terminated approximately $54.8 million of the notional amount of the swap, issued fixed rate refunding bonds related to that portion and kept the remaining portion of the swap to hedge the Eight Series variable rate refunding bonds backed with letters of credit. The Company paid a swap termination payment of $3.8 million to the counterparty to partially terminate the swap.

The original swap confirmation was amended and restated on August 12, 2009 to reflect the principal amount of the Eighth Series B Bonds, with all other terms remaining the same. The remainder of the notional amount was divided among separate trade confirmations with the same terms as the original swap that was executed with the counterparty for the Eighth Series C through E.

In September 2011, the underlying variable rate bonds were remarketed with new letters of credit. During the remarketing, PGW partially redeemed portions of the bonds, and re-allocated remaining principal amongst the bond subseries. At the same time, the City terminated an aggregate notional amount of $29.5 million of the swaps, keeping the remaining portion of the swap to hedge the remaining variable rate bonds backed with letters of credit. The partial termination was competitively bid, with the winning swap counterparty providing the lowest cost of termination/assignment. PGW paid a swap termination payment of $7.0 million to partially terminate the swaps. The remaining notional amounts of each of the swaps were adjusted to match the reallocation of the underlying bonds.

In April 2013, each of the swaps was amended to include additional language specifying the exact process to be used to calculate a termination amount in the event of an optional termination at the request of the City on or before April 1, 2015.

As of August 31, 2013, the swaps had a notional amount of $225.5 million and the associated variable rate debt had a $225.5 million principal amount, broken down by series as follows:

- The Series B swap had a notional amount of $50.3 million and the associated variable rate bonds had a $50.3 million principal amount.
- The Series C swap had a notional amount of $50.0 million and the associated variable rate bonds had a $50.0 million principal amount.

- The Series D swap had a notional amount of $75.0 million and the associated variable rate bonds had a $75.0 million principal amount.
- The Series E swap had a notional amount of $50.2 million and the associated variable rate bonds had a $50.2 million principal amount.

The final maturity date for all swaps is on August 1, 2028.

As of August 31, 2013, the swaps had a combined negative fair value of approximately $33.4 million. The fair values of the interest rate swaps were estimated using the zero coupon method. That method calculates the future net settlement payments required by the swap, assuming current forward rates are implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps.

As of August 31, 2013, the City is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the City would be exposed to credit risk in the amount of the swaps' fair value. The swaps include a termination event additional to those in the standard ISDA master agreement based on credit ratings. The swaps may be terminated by the City if the rating of the counterparty falls below A3 or A – (Moody's/S&P), unless the counterparty has: (i) assigned or transferred the swap to a party acceptable to the City; (ii) provided a credit support provider acceptable to the City whose obligations are pursuant to a credit support document acceptable to the City; or (iii) executed a credit support annex, in form and substance acceptable to the City, providing for the collateralization by the counterparty of its obligations under the swaps.

The swaps may be terminated by the counterparty if the rating on the Company's bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation, as long as Assured Guaranty Municipal Corporation is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. At the present time, the rating for Assured Guaranty Municipal Corporation is at A2/AA – (Moody's/S&P).

The City is exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70.0% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70.0% of one month LIBOR received on the swap.

The impact of the interest rate swaps on the financial statements for the year ended August 31, 2013 and 2012 is as follows (thousands of U.S. dollars):

| | Interest rate swap liability | Deferred outflow of resources |
|---|---|---|
| Balance August 31, 2012 | 57,435 | 34,712 |
| Change in fair value through August 31, 2013 | (24,072) | (22,653) |
| Balance August 31, 2013 | 33,363 | 12,059 |

| | Interest rate swap liability | Deferred outflow of resources |
|---|---|---|
| Balance August 31, 2011 | 51,671 | 25,360 |
| Change in fair value through August 31, 2012 | 5,764 | 9,352 |
| Balance August 31, 2012 | 57,435 | 34,712 |

The interest rate swap liability is included in other liabilities and deferred credits and deferred outflow of resources is included in other assets and deferred debits on the balance sheet.

There are no collateral posting requirements associated with the swap agreements.

### b. School District of Philadelphia Swap Agreements

The School District adopted, in Fiscal Year 2010, the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2013 financial statements are as follows (amounts in thousands; debit (credit)):

| | Change in Fair Value | | Fair Value at June 30, 2013 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| Governmental Activities | | | | | |
| Investment derivatives: | | | | | |
| Pays-variable Interest rate swaps | Investment expense | $ (1,864) | Investment | $(23,951) | $ 500,000 |
| | | | | $(23,951) | |

As of June 30, 2013, the School District determined that the pay variable interest rate swaps listed as investment derivatives do not meet the criteria for effectiveness as a hedging instrument. It is therefore reported within the investment revenue classification.

## 8. LEASE COMMITMENTS AND LEASED ASSETS

### A. CITY AS LESSOR

The City's operating leases consist of leases of airport facilities, recreation facilities, certain transit facilities and various other real estate and building sites. Rental income for all operating leases for the year was:

| | Primary Government | | Component Units |
|---|---|---|---|
| (Amounts In Thousands of USD) | Governmental Funds | Proprietary Funds | |
| Minimum Rentals | 8,319 | 28,758 | 3,853 |
| Additional Rentals | - | 153,316 | 185 |
| Sublease | 12,281 | - | 1,985 |
| Total Rental Income | 20,600 | 182,074 | 6,023 |

Future minimum rentals receivable under non-cancelable operating leases are as follows:

(Amounts In Thousands of USD)

| Fiscal Year Ending June 30 | Primary Government: Governmental Funds | Primary Government: Proprietary Funds | Component Units |
|---|---|---|---|
| 2014 | 3,898 | 13,815 | 4,375 |
| 2015 | 4,142 | 7,534 | 3,492 |
| 2016 | 4,384 | 6,897 | 3,183 |
| 2017 | 4,371 | 6,549 | 2,355 |
| 2018 | 4,687 | 6,557 | 1,377 |
| 2019-2023 | 29,121 | 25,304 | 2,890 |
| 2024-2028 | 41,662 | 16,551 | 1,637 |
| 2029-2033 | 59,311 | 10,859 | 855 |
| 2034-2038 | 85,649 | 5,754 | 717 |
| 2039-2043 | - | - | 717 |
| 2044-2048 | - | - | 717 |
| 2049-2053 | - | - | 717 |
| 2054-2058 | - | - | 717 |
| 2059-2063 | - | - | 717 |
| 2064-2068 | - | - | 717 |
| 2069-2073 | - | - | 717 |
| 2074-2078 | - | - | 717 |
| 2079-2083 | - | - | 704 |
| 2084-2088 | - | - | 623 |
| 2089-2093 | - | - | 47 |
| Total | 237,225 | 99,820 | 27,991 |

## B. CITY AS LESSEE

### 1) OPERATING LEASES

The City's operating leases consist principally of leases for office space, data processing equipment, duplicating equipment and various other items of property and equipment to fulfill temporary needs. Rental expense for all operating leases for the year was as follows:

| (Amounts In Thousands of USD) | Primary Government: Governmental Funds | Primary Government: Proprietary Funds | Component Units |
|---|---|---|---|
| Minimum Rentals | 174,594 | 36,910 | 205,593 |
| Additional | - | - | 77 |
| Sublease | - | - | 1,982 |
| Total Rental Expense | 174,594 | 36,910 | 207,652 |

At year end, the future minimum rental commitments for operating leases having an initial or remaining non-cancelable lease term in excess of one year are as follows:

(Amounts In Thousands of USD)

| | Primary Government | | Component Units |
|---|---|---|---|
| Fiscal Year Ending June 30 | Governmental Funds | Proprietary Funds | |
| 2014 | 36,096 | 537 | 208,180 |
| 2015 | 29,277 | 49 | 206,212 |
| 2016 | 28,841 | - | 206,166 |
| 2017 | 26,944 | - | 206,235 |
| 2018 | 25,545 | - | 207,828 |
| 2019-2023 | 78,603 | - | 199,850 |
| 2024-2028 | 36,052 | - | - |
| 2029-2033 | 16,257 | - | - |
| 2034-2038 | 16,414 | - | - |
| Total | 294,029 | 586 | 1,234,471 |

### 2) CAPITAL LEASES

Capital leases consist of leased real estate and equipment from various component units. Future minimum rental commitments are as follows:

(Amounts In Thousands of USD)

| Fiscal Year Ending June 30 | Component Units |
|---|---|
| 2014 | 2,324 |
| 2015 | 1,734 |
| 2016 | 1,544 |
| 2017 | 1,255 |
| 2018 | 944 |
| 2019-2023 | 2,370 |
| Future Minimum Rental Payments | 10,171 |
| Interest Portion of Payments | (957) |
| Obligation Under Capital Leases | 9,214 |

## 9. DEFERRED COMPENSATION PLANS

### A. PRIMARY GOVERNMENT

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code section 457. As required by the Code and Pennsylvania laws in effect at June 30, 2013, the assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. In accordance with GASB Statement No.32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City does not include the assets or activity of the plan in its financial statements**.**

### B. COMPONENT UNITS

In December 2011, the Pension Plan for **PGW** sponsored by the City was amended by Ordinance and a new deferred compensation plan was authorized by Ordinance as well. Newly hired employees will have an irrevocable option to join either a new deferred compensation plan created in accordance with Internal Revenue Code Section 401 or the existing defined benefit plan. The deferred compensation plan provides for an employer contribution equal to 5.5% of applicable wages. The defined benefit plan provides for a newly hired employee contribution equal to 6.0% of applicable wages. The Ordinance did not affect the retirement benefits of active employees, current retirees and beneficiaries, or terminated employees entitled to benefits but not yet receiving them.

## 10. FUND BALANCE POLICIES

Fund Balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. GASB 54 provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purpose for which resources can be used:

- Non-Spendable Fund Balance — Includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The Departmental Funds ($.2 million) and Permanent Funds ($2.6 million) were non-spendable.

- Restricted Fund Balance — Includes amounts for which constraints have been placed on the use of resources which are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The General Fund had a restricted fund balance of $96.3 million at June 30, 2013. The fund balances in the following Special Revenue Funds were restricted: HealthChoices Behavioral Health ($233.7 million); Grants Revenue ($58.7 million); County Liquid Fuels ($2.6 million); Special Gasoline Tax ($21.3 million); Hotel Room Rental Tax ($7.2 million); Car Rental Tax ($6.8 million); Housing Trust ($15 million); Acute Care Hospital Assessment ($15.2 million); Departmental ($6.3 million); Municipal Authority Administrative ($.3 million); PICA Administrative ($33.9 million). The entire fund balances of the Debt Service ($81.2 million) and Capital Improvement ($29.2 million) funds were restricted. The Permanent Fund had a restricted fund balance of $3.1 million at June 30, 2013.

- Committed Fund Balance – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by an ordinance passed by Philadelphia's City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the ordinance that was employed when the funds were initially committed. The fund balances in the following Special Revenue Funds were committed: Philadelphia Prisons ($4.4 million) and Departmental ($.7 million).

- Assigned Fund Balance — Includes amounts that are constrained by government's intent to be used for a specific purpose but are neither restricted nor committed. The intent may be expressed by the Budget Director, other authorized department heads or their designees to which the Finance Director has granted the authority to assign amounts to be used for specific purposes. There is no prescriptive action to be taken by the authorized officials in removing or modifying the constraints imposed on the use of the assigned amounts. The General fund reported an assigned fund balance of $98 million at June 30, 2013 which represents the encumbrance balance at the end of the reporting period.

- Unassigned Fund Balance – This classification is the residual fund balance for the General Fund. It also represents fund balance that has not been classified as assigned, committed or restricted or non-spendable. The General Fund had a $90 million unassigned fund balance at June 30, 2013. Within the Special Revenue Funds the Grants Revenue fund had a negative fund balance of $217.1 million and the Community Development fund had a negative fund balance of $7.2 million at June 30, 2013.

To the extent that funds are available for expenditure in both the restricted and the other fund balance categories, except for the non-spendable category, funds shall be expended first from restricted amounts and then from the other fund balance categories amounts excluding non-spendable. To the extent that funds are available for expenditure in these other categories, except for the non-spendable fund balance, the order of use shall be: committed balances, assigned amounts, and lastly, unassigned amounts.

Table below presents a more detailed breakdown of the City's fund balances at June 30, 2013:

| (Amounts In Thousands of USD) | General Fund | HealthChoices Behavioral Health Fund | Grants Revenue Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Nonspendable:** | | | | | |
| Permanent Fund (Principal) | - | - | - | 2,833 | 2,833 |
| **Subtotal Nonspendable:** | - | - | - | 2,833 | 2,833 |
| **Restricted for:** | | | | | |
| Neighborhood Revitalization | - | - | 34,218 | - | 34,218 |
| Economic Development | - | - | - | 7,150 | 7,150 |
| Public Safety Emergency Phone System | - | - | 24,475 | - | 24,475 |
| Streets & Highways | - | - | - | 23,904 | 23,904 |
| Housing & Neighborhood Dev | - | - | - | 15,042 | 15,042 |
| Health Services | - | - | - | 15,196 | 15,196 |
| Behavioral Health | - | 233,724 | - | - | 233,724 |
| Parks & Recreation | - | - | - | 418 | 418 |
| Libraries & Museums | - | - | - | 96 | 96 |
| Intergovernmental Financing (PICA) | - | - | - | 33,880 | 33,880 |
| Intergovernmentally Financed Programs | - | - | - | - | - |
| Central Library Project | 2,331 | - | - | - | 2,331 |
| Stadium Financing | 2,096 | - | - | 6,822 | 8,918 |
| Cultural & Commercial Corridor Project | 12,175 | - | - | - | 12,175 |
| Capitalized Interest | 79,743 | - | - | - | 79,743 |
| Debt Service Reserve | - | - | - | 81,474 | 81,474 |
| Capital Projects | - | - | - | 29,230 | 29,230 |
| Trust Purposes | - | - | - | 8,885 | 8,885 |
| **Subtotal Restricted** | 96,345 | 233,724 | 58,693 | 222,097 | 610,859 |
| **Committed, reported in:** | | | | | |
| Social Services | - | - | - | 34 | 34 |
| Prisons | - | - | - | 4,401 | 4,401 |
| Parks & Recreation | - | - | - | 673 | 673 |
| **Subtotal Committed** | - | - | - | 5,108 | 5,108 |
| **Assigned, reported in:** | | | | | |
| General Fund | 98,033 | - | - | - | 98,033 |
| **Subtotal Assigned:** | 98,033 | - | - | - | 98,033 |
| **Unassigned Fund Balance:** | 89,980 | - | (217,139) | (7,191) | (134,350) |
| **Total Fund Balances** | 284,358 | 233,724 | (158,446) | 222,847 | 582,483 |

## 11. INTERFUND TRANSACTIONS

During the course of normal operations the City has numerous transactions between funds. These transactions are recorded as operating transfers and are reported as other financial sources (uses) in the Governmental Funds and as transfers in the Proprietary Funds. Some of the more significant transfers are: the PICA administrative fund collects a portion of the wage tax paid by City residents and transfers funds that are not needed for debt service and administrative costs to the general fund. Also, the general fund and the PICA administrative fund make transfers to the debt service funds for principal and interest payments.

Transfers between fund types during the year were:

| *(Amounts in Thousands of USD)* | Governmental | *Transfers To:* Non major Governmental | | | | |
|---|---|---|---|---|---|---|
| ***Transfers From:*** | **General** | **Grants** | **Special Revenue** | **Debt Service** | **Capital Improvement** | **Total** |
| **General** | - | 320 | 12,005 | 156,070 | 1,029 | 169,424 |
| **Grants** | 26,772 | - | 1,433 | - | 5,594 | 33,799 |
| **Non major Special Revenue Funds** | 315,842 | - | - | 63,849 | 8,850 | 388,541 |
| **Water Fund** | 560 | - | 20,820 | - | - | 21,380 |
| **Total** | 343,174 | 320 | 34,258 | 219,919 | 15,473 | 613,144 |

## 12. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet (Exhibit III) includes reconciliation to the Net Position of Governmental Activities. One element of that reconciliation states that "Long Term Liabilities, including bonds payable, are not reported in the funds". The details of this difference are as follows:

(Amounts in Millions of USD)

| | |
|---|---|
| Bonds Payable | 1,986.2 |
| Service Agreements | 2,293.7 |
| Employee Related Obligations | 652.1 |
| Indemnities | 63.4 |
| Arbitrage | - |
| Leases | 28.9 |
| Net Pension Obligation | 181.1 |
| Total Adjustment | 5,205.4 |

## 13. PRIOR PERIOD ADJUSTMENTS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

### A. PRIMARY GOVERNMENT

- The **PMA** net position beginning balance was increased by $19.1 million. This increase was a result of an adjustment from "Expense-General Management and Support" to "Other Capital Assets (Net of Depreciation)". This adjustment involved the correction of a **PMA** purchase of capital assets being incorrectly recorded as an expense in the 2012 full accrual financial statements.

- The City implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 amends the accounting and financial reporting guidance for certain items previously required to be reported as assets and liabilities. As a result of this accounting change, the beginning net position as of July 1, 2012 has been decreased by $33.8 million in Governmental Activities and $74.5 million in Business-Type Activities. GASB No. 65 requires bond issuance costs to be expensed. Prior unamortized costs were retroactively written off as reflected in the effect of restating prior periods.

  The impact of these changes in the primary government is as follows:

(Amounts in Thousands of USD)

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| **Net Position as previously reported** | (1,772,472) | 1,737,527 |
| Cumulative effect for a change in accounting principles: | | |
| Related to bond issuance cost | (33,792) | (74,451) |
| Prior Period Adjustment | 19,137 | |
| Total Adjustments | (14,655) | (74,451) |
| **Net Position as restated** | (1,787,127) | 1,663,076 |

### B. COMPONENT UNIT

- **PGW** net position beginning balance was increased by $11.8 million. The City historically used **PGW** financial statements from their previous fiscal year (August 31, 2012). However, in FY13 to comply with GASB 14, which states that it is acceptable to incorporate an entity's fiscal year if the component unit's fiscal year ends within the first quarter, **PGW** financial statements ending August 31, 2013 were used to provide a timely and accurate presentation of the financial statements.

- **PGW** implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities*, that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). Certain debt issuance costs are now expensed rather than recorded as an asset and amortized over the life of the debt. This provision was applied retroactively and resulted in beginning net assets as of September 1, 2011 being reduced by $5.6 million.

## 14. NET POSITION RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net position reports $1,266.2 million of restricted net position, of which $68.1 million is restricted by enabling legislation as follows:

| (Amounts in Thousands of USD) | Restricted Net Position | Restricted by Enabling Legislation |
|---|---|---|
| Capital Projects | 252,657 | - |
| Debt Service | 375,071 | - |
| Pension Oblig Bond Refunding Reserve | 79,743 | - |
| Behavioral Health | 233,724 | - |
| Neighborhood Revitalization | 34,218 | - |
| Stadium Financing | 2,096 | - |
| Central Library Project | 2,331 | - |
| CCC Project | 12,175 | - |
| Grant Programs | 53,726 | 15,042 |
| Rate Stabilization | 161,464 | - |
| Libraries & Parks: | | |
| Expendable | 3,109 | - |
| Non-Expendable | 2,633 | - |
| Other | 53,337 | 53,072 |
| Total | 1,266,284 | 68,114 |

## 15. FUND DEFICITS

- The Grants Revenue fund, which is a Special Revenue Fund, has a Fund Balance Deficit at year end of $158.4 million. The deficit was primarily caused due to the recording of reimbursed costs and corresponding revenues for services provided by the Department of Human Services to the grants fund, and the delay of billing and receiving reimbursements from the state.

- The Community Development Fund, which is a Special Revenue fund, has a Fund Balance Deficit at year end of $7.2 million.

## 16. ADVANCE SERVICE CHARGE

The City's Water Fund Regulations provide for the assessment of an "Advance Service Charge" (ASC) at the time a property is initially connected to the system. The initial charge is calculated to be the equivalent of three (3) monthly service charges. This long-standing practice of assessing an initial charge equivalent to the average of three monthly service charges has been consistent whether the billing period was semi-annually (through 1979), quarterly (1979-1994) or monthly (1994-2012). The Fund includes these charges in current revenues at the time they are received. Fund regulations also provide for a refund of any advance service charges upon payment of a $100 fee and permanent disconnection from the system.

During FY 2013, 333 disconnection permits were issued resulting in a refund or final credit of approximately $149,760. During the period of July 1, 2012 and December 31, 2012, 403 new connection permits were issued resulting in additional advance service charges of approximately $175,765. As part of the process for setting rates and charges, the Department revised the regulations to freeze advanced service charges at their then current levels starting on January 1, 2013. As a result, advance service charges will no longer be collected or charged to new customers of the system.

# IV. OTHER INFORMATION

## 1. PENSION PLANS

The City maintains two single employer defined benefit plans for its employees and several of its component units. The City is required by the Philadelphia Home Rule Charter to maintain an actuarially sound pension and retirement system (PERS). The fund covers all officers and employees of the city and the officers and employees of certain other governmental and quasi-governmental organizations.

### A. SINGLE EMPLOYER PLANS

The two plans maintained by the City are the Municipal Pension Plan (City Plan) and the Gas Works Plan (PGW Plan). Financial statements for the City and PGW pension plans are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements.

Required Supplementary Information calculated in accordance with GASB Statement No. 25 is presented in audited financial statements of the respective pension plans. Copies of these financial statements may be obtained by contacting the Director of Finance of the City of Philadelphia.

#### (1) City Plan

##### a. Plan Description

The Philadelphia Home Rule Charter (the Charter) mandates that the City maintain an actuarially sound pension and retirement system. To satisfy that mandate, the City's Board of Pensions and Retirement maintains the single-employer Municipal Pension Plan (the Plan). The plan covers all officers and employees of the City and officers and employees of five other governmental and quasi-governmental organizations. By authority of two Ordinances and related amendments passed by City Council, the Plan provides retirement benefits as well as death and disability benefits. Benefits vary by the class of employee. The plan has two major classes of members - those covered under the 1967 Plan and those covered under the 1987 Plan. Each of these two plans has multiple divisions. In addition to the two major classes of members, a third class of members was enacted in fiscal year 2011 that features a defined benefit and a defined contribution component.

**Retirement Benefits**

An employee who meets the age and service requirements of the particular division in which he participates is entitled to an annual benefit, payable monthly for life, equal to the employee's average final compensation multiplied by a percentage that is determined by the employee's years of credited service. The formula for determining the percentage is different for each division. If fund earnings exceed the actuarial assumed rate by a sufficient amount, an enhanced benefit distribution to retirees, their beneficiaries, and their survivors shall be considered. A deferred vested benefit is available to an employee who has 10 years of credited service, has not withdrawn contributions to the system and has attained the appropriate service retirement age. Members of both plans may opt for early retirement with a reduced benefit. The **Deferred Retirement Option Plan** (DROP) was initiated on October 1, 1999. Under this plan employees that reach retirement age may accumulate their monthly service retirement benefit in an interest bearing account at the Board of Pensions for up to four (4) years and continue to be employed by the City of Philadelphia.

**Death Benefits**

If an employee dies from the performance of duties, his/her spouse, children or dependent parents may be eligible for an annual benefit ranging from 15% to 80% of the employee's final average compensation. Depending on age and years of service, the beneficiary of an employee who dies other than from the performance of duties will be eligible for either a lump sum benefit only or a choice between a lump sum or an annual pension.

**Disability Benefits**

Employees disabled during the performance of duties are eligible for an immediate benefit equal to contributions plus a yearly benefit. If the employee subsequently becomes employed, the benefit is reduced by a percentage of the amount earned. Certain employees who are disabled other than during the performance of duties are eligible for an ordinary disability payment if they apply for the benefit within one year of termination. If the employee subsequently becomes employed, the benefit is reduced by a percentage of the amount earned.

**Membership**

Membership in the plan as of July 1, 2012 was as follows:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 36,890 |
| Terminated members entitled to benefits but not yet receiving them | 1,289 |
| Active members | 26,306 |
| Total Members | 64,485 |

The Municipal Pension Fund issues a separate annual financial report. To obtain a copy, contact the Director of Finance of the City of Philadelphia.

**b. Funding Policy**

Employee contributions are required by City Ordinance. For Plan 67 members, employees contribute 3¾% of their total compensation that is subject to FICA and 6% of compensation not subject to FICA. Plan 87 contribution rates are defined for the membership as a whole by Council ordinance. Rates for individuals are then determined annually by the actuary so that total individual contributions satisfy the overall rate set by Council.

The City is required to contribute the remaining amounts necessary to fund the Plan, using an acceptable actuarial basis as specified by the Home Rule Charter, City Ordinance and State Statute. Court decisions require that the City's annual employer contributions are sufficient to fund:

- The accrued actuarially determined normal costs
- Amortization in level dollar payments of the changes to the July 1, 1985 liability due to the following causes over the stated period:
  - non active member's benefit modifications (10 years)
  - experience gains and losses (15 years)
  - changes in actuarial assumptions (20 years)
  - active members' benefit modifications (20 years )

Under the City's current funding policy, the total required employer contribution for the current year amounted to $727.6 million or 51.1% of the covered payroll of $1,423.4 million. The City's actual contribution was $763.7 million. The City's contribution did meet the Minimum Municipal Obligation (MMO) as required by the Commonwealth of Pennsylvania's Acts 205 and 189.

In Fiscal Year 2011 the City made several changes to the pension plan based on Act 44, which provided a new method of determining municipal distress levels and alternative funding relief in response to the 2008/2009 market decline. The City adopted fresh start amortization, alternating to 30 years and lowered the assumed rate of interest from 8.15% to 8.10% assuming a partial deferral of the pension payments in fiscal years 2010 and 2011 of $150 million and $80 million respectively, which must be repaid by fiscal year 2014. The change in amortization period and the partial deferral were approved by the Commonwealth of Pennsylvania General Assembly's Act 44. Act 44 also allowed the City to temporarily impose an additional local sales tax of 1.0% to fund future MMO Payments.

The Annual Pension Cost and related percentage contributed for the three most recent fiscal years are as follows:

(Millions of USD)

| Fiscal Year Ended June 30 | Annual Pension Cost | Percentage Contributed | Net Pension Obligation |
|---|---|---|---|
| 2011 | 721.7 | 65.14% | 80.0 |
| 2012 | 719.6 | 77.22% | 243.9 |
| 2013 | 729.1 | 105.43% | 204.3 |

The actuarial valuation used to compute the current year's required contribution was performed as of July 1, 2012. Methods and assumptions used for that valuation include:

- the individual entry age actuarial cost method
- a ten-year smoothed market value method for valuing investments
- a level percentage closed method for amortizing the unfunded liability
- an annual investment rate of return of 7.95%
- projected annual salary increases based on new age based scale
- payroll growth rate is 3.3%
- no post-retirement benefit increases

Administrative costs of the Plan are paid out of the Plan's assets.

**c. Funding Status**

The following schedule shows the funding status based on the latest actuary report. The schedule of funding progress, which presents multiyear trend information about whether the actuarial value of plan assets is decreasing over time relative to the actuarial accrued liability for benefits, can be found in the Required Supplementary Information section immediately following the Notes to the Financial Statements.

*(Amounts in Millions of USD)*

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percent of Covered Payroll (b - a) / c |
|---|---|---|---|---|---|---|
| 07/01/2010 | 4,380.9 | 9,317.0 | 4,936.1 | 47.02% | 1,421.2 | 347.32% |
| 07/01/2011 | 4,489.1 | 9,487.5 | 4,998.4 | 47.32% | 1,371.3 | 364.50% |
| 07/01/2012 | 4,486.8 | 9,799.9 | 5,313.1 | 45.78% | 1,372.2 | 387.20% |

**d. Net Pension Obligation**

The City and other employers' annual pension cost and net pension obligation (NPO) for the Municipal Pension Plan for the current year were as follows:

| | (Amounts in Thousands of USD) |
|---|---|
| Annual Required Contribution (ARC) | 738,010 |
| Interest on Net Pension Obligation (NPO) | 19,756 |
| Adjustment to ARC | (28,660) |
| Annual Pension Cost | 729,106 |
| Contributions Made | (768,702) |
| Increase in NPO | (39,596) |
| NPO at beginning of year | 243,898 |
| NPO at end of year | 204,302 |
| Interest Rate | 8.10% |
| 15 Year amortization Factor (EOY) | 8.51% |

**e. Derivative Instruments**

In 2010 the City of Philadelphia adopted GASB Statement No. 53 which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments such as swaps, options, futures and forwards are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities.

The City of Philadelphia Municipal Pension Fund (Pension Fund) enters into a variety of financial contracts which include options, futures, forwards and swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMO's); other forward contracts, and U.S. Treasury strips. The contracts are used primarily to enhance performance and reduce volatility of the portfolio. The Pension Fund is exposed to credit risk in the event of non performance by counterparties to financial instruments. The Pension Fund generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The Pension Fund is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by Board approved guidelines, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of the Pension Fund's involvement in the various types and uses of derivative financial instruments and do not measure the Pension Fund's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives. The following table summarizes the aggregate notional or contractual amounts for the Pension Fund's derivative financial instruments at June 30, 2013:

## List of Derivatives Aggregated by Investment Type

| | Changes in Fair Value | | Fair Value at June 30, 2013 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| **Investment Derivatives** | | | | | |
| **Forward Currency Contracts** | Net appreciation/(depreciation) in investments | $ 2,036,338 | Accrued interest and other receivables | $ 1,742,854 | $ 211,776,936 |
| **Futures** | Net appreciation/(depreciation) in investments | (153,003) | Accrued interest and other receivables | (27,773) | 36 |
| **Swaps** | Net appreciation/(depreciation) in investments | 284,636 | Accrued interest and other receivables | - | - |
| **Grand Totals** | | **$2,167,971** | | **$1,715,081** | **$211,776,972** |

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Investment Policy Statement of the Pension Fund. The guidelines identify transaction-level and portfolio-level risk control procedures and documentation requirements. Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have credit ratings available from nationally recognized rating institutions such as Moody, Fitch and S&P.

The details of other risks and financial instruments in which the municipal pension fund of Philadelphia is involved are described below:

***Concentration of Credit Risk:*** Currently, the Fund is invested primarily in equity securities (70.79%). The Fund's resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the Fund is charged with reviewing the portfolios for compliance with those objectives and guidelines. Of the fixed income type investments held by the pension fund, 59.8% had Standard & Poors ratings of AAA to A.

***Credit Risk*:** The Pension Fund is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Pension Fund's policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below AA as issued by Fitch Ratings and Standard & Poor's or Aa as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The city has never failed to access collateral when required.

It is the Pension Fund's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2013, was $1,742,854. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. This maximum exposure is reduced by ($27,773) of collateral or liabilities included in netting arrangements with those counterparties, resulting in a net exposure to credit risk of $1,715,082.

**Interest Rate Swap Agreements.** provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 2013 the Fund entered into interest rate swaps. Under the receive fixed interest rate type swap arrangements, the Fund receives the fixed interest rate on certain equity or debt securities or indexes in exchange for a fixed charge. There were not any total receive fixed interest Swaps this year. On its pay-variable, received-fixed interest rate swap, as LIBOR increases, the Fund's net payment on the swap increases. Alternatively, on its pay-fixed, receive-variable interest rate swap, as LIBOR or the SIFMA swap index decreases, the Fund's net payment on the swap increases.

**Future Contracts** are types of contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the Fund enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the Fund has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed.

**Forward contracts** The Fund is exposed to basis risk on its forward contract because the expected funds purchase being hedged will price based on a pricing point different than the pricing point at which the forward contract is expected to settle.

**Termination risk**: The Fund or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the Fund is exposed to termination risk on its receive-fixed interest rate swap. The Fund is exposed to termination risk on its rate cap because the counterparty has the option to terminate the contract if the SIFMA swap index exceeds 12 percent. If at the time of termination, a hedging derivative instrument is in a liability position, the city would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

**Rollover Risk**: The Fund is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Fund will be re-exposed to the risks being hedged by the hedging derivative instrument.

In addition, the Pension Fund also was involved in other financial instruments such as rights that were worth $3,993 and warrants that were $19,626,337.

**f. Summary of Significant Accounting Policies**

Financial statements of the Fund are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the Fund. Investments are valued as described in Footnote III.1.

**(2) Gas Works Plan**

**a. Plan Description**

**PGW** sponsors a public employee retirement system (PERS), a single-employer defined benefit plan to provide benefits for all its employees. The **PGW** Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 5 years of credited service. Employees who retire at or after age 65 are entitled to receive an annual retirement benefit, payable monthly, in an amount equal to the greater of:

- 1.25% of the first $6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over $6,600, times years of credited service, with a maximum of 60% of the highest annual earnings during the last 10 years of credited service, applicable to all participants, or

- 2% of total earnings received during the period of credited service plus 22.5% of the first $1,200 of such amount, applicable only to participants who were employees on or prior to March 24, 1967.

Final-average earnings is the employees' average pay, over the highest 5 years of the last 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Employees with 30 years of service may retire without penalty for reduced age.

At September 1, 2012 the beginning of the Plan Year of the last actuarial valuation, the Pension Plan membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits and terminated members entitled to benefits but not yet receiving them | 2,373 |
| Current Employees | 1,473 |
| Total Members | 3,846 |

**b. Funding Policy**

Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance. Covered employees are not required to contribute to the PGW Pension Plan. The Gas Works is required by statute to contribute the amounts necessary to finance the Plan.

The funding policy of the **PGW** Plan provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentage of employer contribution rates are based on the actuarial accrued liability as determined by using the Projected Unit Credit actuarial funding method. The actuarial asset value is equal to the value of fund assets. The unfunded actuarial accrued liability is being amortized using the open method. Contributions of $23.6 million (approximately 22.3% of covered payroll) were made to the PGW Plan during the year.

Beneficiary payments of $41.6 million were made in FY 2013. Withdrawals from the pension assets of $14.5 million were utilized to meet these beneficiary payments. Additionally, $3.5 million is due to the Company from the pension fund at the end of FY 2013.

In December 2011, the Pension Plan sponsored by the City was amended by Ordinance and a new deferred compensation plan was authorized by Ordinance as well. Newly hired employees will have an irrevocable option to join either a new deferred compensation plan created in accordance with Internal Revenue Code Section 401 or the existing defined benefit plan. The deferred compensation plan provides for an employer contribution equal to 5.5% of applicable wages. The defined benefit plan provides for a newly hired employee contribution equal to 6.0% of applicable wages. The Ordinance did not affect the retirement benefits of active employees, current retirees and beneficiaries, or terminated employees entitled to benefits but not yet receiving them.

**c. Funding Status**

The funded status of the **PGW** plan as of September 1, 2012 the most recent actuarial valuation is as follows (amounts in thousands):

(Amounts In Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL)-Entry Age (b) | Unfunded/ (Over Funded) AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percent of Covered Payroll (b - a) / c |
|---|---|---|---|---|---|---|
| 09/01/2012 | $437,780 | $585,632 | $147,852 | 74.8% | $106,000 | 139.5% |
| 09/01/2011 | $421,949 | $572,190 | $150,241 | 73.7% | $106,308 | 141.3% |
| 09/01/2010 | $381,975 | $533,630 | $151,655 | 71.6% | $106,125 | 142.9% |

The analysis of pension funding progress presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

| | |
|---|---|
| Amortization Method | Level percent open |
| Remaining Amortization Period | 20 years |

**d. Annual Pension Cost**

**PGW's** annual pension cost for the current year of $23.6 million is equal to its required contribution. The annual required contribution for the current year was determined based on an actuarial study or updates thereto, using the projected unit credit method. Significant actuarial assumptions used include an annual rate of return on investments of 7.95%, compounded annually, projected salary increases of 3.00% of the salary at the beginning of FY 2013, and retirements that are assumed to occur prior to age 62, at a rate of 10% at 55 to 61 and 100% at age 62. The assumptions did not include post retirement benefit increases.

The Annual Pension Cost and related percentage contributed for the three most recent fiscal years is as follows:

(Amounts in Millions of USD)

| Fiscal Year Ended August 31 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2013 | 23.6 | 100% |
| 2012 | 24.0 | 100% |
| 2011 | 22.6 | 100% |

**e. Summary of Significant Accounting Policies**

The financial statements of the Plan are prepared on the accrual basis of accounting. Employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as earned. Gains and losses on sales and exchanges are recognized on the transaction date. Plan investments are reported at fair value based on quoted market price for those similar investments.

## 2. ACCUMULATED UNPAID SICK LEAVE

City and certain component unit employees are credited with varying amounts of sick leave according to type of employee and/or length of service. City employees may accumulate unused sick leave to predetermined balances. **SDP** employees have an unlimited maximum accumulation, and Gas Works' employees' sick leave is non-cumulative. Non-uniformed employees (upon retirement only) and uniformed employees (upon retirement or in case of death while on active duty) are paid varying amounts ranging from 25% to 50% of unused sick time, not to exceed predetermined amounts. Employees, who separate for any reason other than indicated above, forfeit their entire sick leave. The City budgets for and charges the cost of sick leave as it is taken.

## 3. OTHER POST EMPLOYMENT BENEFITS (OPEB)

### A. PRIMARY GOVERNMENT

***Plan description*:** The City of Philadelphia self-administers a single employer, defined benefit plan and provides health care for five years subsequent to separation for eligible retirees. Certain union represented employees may defer their coverage until a later date, but the amount that the City pays for their health care is limited to the amount that the City would have paid at the date of their retirement. The City also provides lifetime insurance coverage for all eligible retirees. Firefighters are entitled to $7,500 coverage and all other employees receive $6,000 in coverage. The plan does not issue stand alone financial statements, and the accounting for the plan is reported within the financial statements of the City of Philadelphia.

***Funding Policy:*** The City funds its retiree benefits on a pay-as-you-go basis. To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by union contracts and is self insured for non-union employees. For fiscal year 2013, the City paid $57.1 million for retiree healthcare.

***Annual OPEB Cost and Net OPEB Obligation:*** The City's annual other post employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding, which if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the net OPEB obligation:

| | (Amounts in Thousands of USD) |
|---|---|
| Annual required contribution | 113,934 |
| Interest on net OPEB obligation | 4,633 |
| Adjustment to ARC | (4,175) |
| Annual OPEB cost | 114,392 |
| Payments made | (57,096) |
| Increase/(Decrease) in net OPEB Obligation | 57,296 |
| Net OPEB obligation - beginning of year | 109,019 |
| Net OPEB obligation - end of year | 166,315 |

The City of Philadelphia's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2013 was as follows:

(Amounts in thousands USD)

| Fiscal Year Ended | | Annual OPEB Cost | Percentage of Annual OPEB Contributed | | Net OPEB Obligation |
|---|---|---|---|---|---|
| 6/30/2013 | $ | 114,392 | 50% | $ | 166,314 |
| 6/30/2012 | $ | 105,369 | 72% | $ | 109,019 |
| 6/30/2011 | $ | 101,713 | 64% | $ | 79,481 |

***Funded Status and Funding Progress***: As of July 1, 2012, the most recent actuarial valuation date, the City is funding OPEB on a pay as you go basis and accordingly, the unfunded actuarial accrued liability for benefits was $1.5 billion. The covered annual payroll was $ 1.372 billion and the ratio of the UAAL to the covered payroll was 110.2 percent.

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of future benefit payments for an ongoing plan obligation involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the obligation and the contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

***Actuarial Methods and Assumptions***: Projections of costs for financial reporting purposes are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point.

Costs were determined according to the individual entry age actuarial cost method with the attribution period ending at each decrement age. This is consistent with the cost method used for the City of Philadelphia Municipal Retirement System. The city uses a level percent open approach as its method of amortization. Unfunded liabilities are funded over a 30 year period as a level percentage of payroll, which is assumed to increase at a compound annual rate of 4.25% per year. The actuarial assumption included a 7.95% compound annual interest rate on the City's general investments. The current plan incorporates the following assumptions: no post-retirement benefit increases since last year; a 7.95% Investment Rate of Return, a 3.30% Rate of Salary increases; and, a 4% Ultimate Rate of Medical Inflation.

## B. COMPONENT UNITS

### School District of Philadelphia (SDP) OPEB

From an accrual accounting perspective, the cost of postemployment life insurance benefits, like the cost of pension benefits, generally should be associated with the periods in which the costs occur, rather than in the future when they will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2008, the **SDP** recognizes the costs of postemployment life insurance in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the **SDP**'s future cash flows. Recognition of the liability accumulated from prior years is amortized over no more than 30 years.

**Plan Description:**

The **SDP** provides up to $2,000 of life insurance coverage for retired and disabled employees in a single-employer plan. A retired employee is eligible for this benefit if covered for ten years as an active employee and retired at age 60 with 30 years of service or age 62 with 10 years of service or 35 years of service regardless of age. A disabled employee's eligibility is determined by the insurance company providing the coverage. An unaudited copy of the life insurance benefit plan can be obtained by writing to The **SDP**, 440 North Broad Street, Philadelphia, PA 19130; Attention: Employee Benefits Management.

**Funding Policy:**

The **SDP** is not required by law or contractual agreement to provide funding for the life insurance benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible disabled employees. The number of eligible participants enrolled to receive such benefits as of June 30, 2012, the effective date of the most recent biennial OPEB valuation, is below. There have been no significant changes in the number covered or the type of coverage since that date.

| | Number of Employees | Average Age |
|---|---|---|
| **Active:** | | |
| Represented | 13,907 | 45.9 |
| Non-represented | 848 | 48.4 |
| **Retirees** | 9,758 | 76.3 |
| **Disabled** | 120 | 58.6 |
| **Total** | 24,633 | 55.9 |

**Annual OPEB Cost and Net OPEB Obligation:**

The **SDP**'s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that was actuarially determined by the Entry Age Normal Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB Statement No. 45). Under this method, a contribution is determined that consists of the normal cost and the unfunded actuarial liability payment. The normal cost for each employee is derived as a level contribution from entry age to assumed retirement age. The accumulation of normal costs for service already completed is the actuarial accrued liability (AAL), which under

GASB Statement No. 45 may be amortized over no more than 30 years. The **SDP** has elected to amortize the OPEB obligation as an open amortization period, which is recalculated at each biennial actuarial valuation date, amortized over a 30 year period for the valuation period ending June 30, 2012, using the level percentage of payroll method. The following table shows the elements of the **SDP**'s annual OPEB cost for the year, the amount paid on behalf of the plan, and changes in the **SDP**'s net OPEB obligation to the plan:

| | | |
|---|---|---|
| Normal Cost | $ | 206,936 |
| Amortization of Unfunded Actuarial Accrued Liability (UAAL) | | 603,813 |
| Annual Required Contribution (ARC) | | 810,749 |
| Interest on Net OPEB Obligation | | - |
| Adjustment to the ARC | | - |
| Annual OPEB Cost | $ | 810,749 |
| Net OPEB Obligation as of June 30, 2012 | $ | 130,344 |
| Annual OPEB Cost | | 810,749 |
| Employer Contributions | | (552,663) |
| Increase/(Decrease) in net OPEB Obligation | $ | 258,086 |
| Net OPEB Obligation as of June 30, 2013 | $ | 388,430 |

The **SDP**'s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ending June 30, 2013 was as follows:

| Year Ended June 30 | Annual OPEB Cost (APC) | Percentage of APC Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2011 | $673,167 | 100% | $0 |
| 2012 | 810,749 | 83.9% | 130,344 |
| 2013 | 810,749 | 68.2% | 388,430 |

**Basis of Accounting:**

As defined by GASB Statement No. 45, if the amount of expenditures recognized during the current year is not equal to the annual OPEB cost, the difference is added or subtracted to the net obligation. The **SDP**'s policy is to recognize an expense equal to what is contributed as long as it satisfies the requirement for GASB Statement No. 45.

**Funded Status and Funding Progress:**

As of June 30, 2012, the most recent actuarial valuation date, the plan was 0.0% funded. The actuarial accrued liability of $18.1 million and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $18.1 million.

| | |
|---|---|
| Active | $4,088,289 |
| Inactive | $14,026,106 |
| **Total** | $18,114,395 |

**Actuarial Methods and Assumptions:**

The actuarial assumptions used in the June 30, 2012 OPEB actuarial valuations are those specific to the OPEB valuations. Actuarial valuations involve estimates of the values of reported amounts, assumptions about the probability of events far into the future, and are subject to continual revision. Actuarial calculations reflect a long-term perspective.

- Discount Rate: 3.25% per year, compounded annually.
- Payroll Growth: Payroll is assumed to increase at an average rate of 3.25% per year considering inflation.
- Mortality: Pre-termination and post-termination healthy annuitant rates are projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.

  Pre-termination: RP-2000 Employee Mortality Table for Males and Females.

  Post-termination Healthy Lives: RP-2000 Healthy Annuitant mortality table for males and females.

  Post-termination Disabled Lives: RP-2000 Disabled Annuitant mortality table for males and females. No provision was made for future mortality improvements for disabled lives.
- Termination: Rates which vary by age and years of services were used. Sample rates are shown below:

| If less than 5 years of Service | | If 5 or more Years of Service | |
|---|---|---|---|
| Years of Service | Rate | Age | Rate |
| Less than one year | 24.49% | 25 | 24.75% |
| 1 - 2 | 25.23% | 30 | 18.01% |
| 2 - 3 | 16.54% | 35 | 10.98% |
| 3 - 4 | 14.07% | 40 | 7.91% |
| 4 - 5 | 10.88% | 45 | 6.71% |
| | | 50 | 4.03% |
| | | 55 | 3.81% |
| | | 60 | 6.40% |

- Retirement: Retirement rates are the rates utilized in the June 30, 2011 Actuarial Valuation for the Pennsylvania Public School Employees' Retirement System and vary by age, service, and gender. Members are eligible for early retirement at age 55 with 25 years of service. Class T-C and T-D members are eligible for superannuation retirement at the earlier of (1) age 62 with 3 years of service, (2) age 60 with 30 years of service, or (3) any age with 35 years of service. Class T-E and T-F members are eligible for superannuation retirement at the earlier of (1) age 65 with 3 years of service or (2) any combination of age and service that totals 92 with at least 35 years of service. Sample rates are shown below.

Sample Early Retirement Rates

| Age | Male | Female |
|---|---|---|
| 55 | 15% | 15% |
| 60 | 12 | 15 |

Sample Superannuation Retirement Rates

| Age | Male | Female |
|---|---|---|
| 55 | 30% | 30% |
| 60 | 28 | 30 |
| 65 | 20 | 25 |
| 74 | 100 | 100 |

- Disability: Disability rates are the rates utilized in the June 30, 2011 Actuarial Valuation for the Pennsylvania Public School Employees' Retirement System and vary by age and gender. In addition, no disabilities are assumed to occur at age 60 or later. Sample rates are shown below

| **Attained** | **Percentage Disability Incidence** | |
|---|---|---|
| **Age** | **Male** | **Female** |
| 25 | 0.024% | 0.030% |
| 30 | 0.024% | 0.040% |
| 35 | 0.100% | 0.060% |
| 40 | 0.180% | 0.100% |
| 45 | 0.180% | 0.150% |
| 50 | 0.280% | 0.200% |
| 55 | 0.430% | 0.380% |

- Life Insurance Benefits Claimed: All life insurance benefits are assumed to be claimed upon the retiree's death.
- Life Insurance Coverage while Disabled: The maximum amount of life insurance of $45,000 for non-represented employees or $25,000 for represented employees was assumed to be in effect for future disabled retirees prior to age 65. Actual amounts were used for current disabled retirees prior to age 65.
- Life Insurance Coverage while Employed: Only active employees who have life insurance coverage as of June 30, 2012 are included in this valuation. This valuation assumes they will continue to have life insurance coverage until retirement or disability and be eligible for the postretirement life insurance coverage upon retirement or disability. Any current active employee without life insurance coverage is assumed not to elect to have life insurance coverage prior to retirement or disability.
- Benefits Not Valued: The accelerated death benefit was not valued as the estimated liability impact was de minimus as only disabled retirees prior to age 65 can elect this benefit.
- Special Data Adjustments: Male was assumed for 555 retirees for whom gender was not provided. Active members hired after June 30, 2011 were assumed to be in Class T-E or T-F in PSERS; otherwise Class T-C or T-D was assumed.

**Philadelphia Gas Works (PGW) OPEB**

***P*lan Description: PGW** sponsors a single employer defined benefit healthcare plan and provided postemployment healthcare and life insurance benefits to approximately 2,044 participating retirees and their beneficiaries and dependents in FY 2013, in accordance with their retiree medical program. The annual covered payroll (which was substantially equal to total payroll) was $110.1 million at August 31, 2013.

**PGW** pays the full cost of medical, basic dental, and prescription coverage for employees who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided a choice of three plans at **PGW**'s expense and can elect to pay toward a more expensive plan. Retirees may also contribute toward enhanced dental plan and life insurance coverage. **PGW** pays 100% of the cost for the prescription drug plan after drug co-pays. Union employees hired on or after May 21, 2011 and Non-Union employees hired on or after December 21, 2011 are entitled to receive post-retirement medical, prescription, and dental benefits for five years only. Currently, **PGW** provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go basis.

Total expense incurred for healthcare and life insurance related to retirees amounted to $23.7 million in FY 2013. In addition, **PGW** expensed $18.5 million of funding for the OPEB Trust. Retirees contributed $0.4 million towards their healthcare in FY 2013. These contributions represent the additional cost of healthcare plans chosen by retirees above the basic plan offered by **PGW**. Total premiums for group life insurance were $2.2 million in FY 2013 which included $1.7 million for retirees. Retirees contributed $0.1 million towards their life insurance in FY 2013.

**Annual Postemployment Benefit Cost, Contributions Required, and Contributions Made*:*** The amount paid by the Company for retiree benefits in FY 2013 was $42.2 million, consisting of $22.2 million of healthcare expenses, $1.5 million of life insurance expenses, and $18.5 million contributed to the OPEB trust. The difference between the AOC and the Company's contributions resulted in an increase in the OPEB obligation of $2.0 million in FY 2013, which was recorded to other liabilities and expensed. The actuarial accrued liability for benefits at August 31, 2013 was $436.5 million. The ratio of the unfunded actuarial accrued liability to the covered payroll was 340.3% as of August 31, 2013.

The valuation was prepared utilizing certain assumptions, including the following:

- Economic Assumptions – the discount rate and healthcare cost trends rates

The report utilized an 8.0% discount rate for purposes of developing the liabilities and ARC on the Plan for FY 2013. This rate is based on the expected return of investments of the OPEB Trust.

| | Healthcare cost trend rates | | | |
|---|---|---|---|---|
| **Year** | **Medical (pre-65)** | **Medical (post-65)** | **Prescription** | **Dental** |
| 1 | 10.0% | 8.0% | 8.0% | 4.5% |
| 2 | 9.0 | 7.0 | 7.0 | 4.5 |
| 3 | 8.0 | 6.0 | 6.0 | 4.5 |
| 4 | 7.0 | 5.0 | 5.0 | 4.5 |
| 5 | 6.5 | 4.5 | 4.5 | 4.5 |
| 6 | 6.0 | 4.5 | 4.5 | 4.5 |
| 7 | 5.5 | 4.5 | 4.5 | 4.5 |
| 8 | 5.0 | 4.5 | 4.5 | 4.5 |
| 9 | 4.5 | 4.5 | 4.5 | 4.5 |
| 10 and beyond | 4.5 | 4.5 | 4.5 | 4.5 |

- Benefit Assumption – the initial per capita rates for medical coverage, and the face amount of PGW paid life insurance.
- Demographic Assumptions – including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates), and coverage levels.

The following table shows the calculation of **PGW's** OPEB liability for FY2013. The difference between the annual OPEB cost and contributions made is recorded as other postemployment benefits expense on the statement of revenues and expenses. Contributions made are allocated to operating expense line items along with salaries and other employee benefit costs.

| | (Amounts in Thousands) |
|---|---|
| Annual required contribution | 41,216 |
| Interest on net OPEB obligation | 8,885 |
| Adj to annual required contribution | (9,866) |
| Annual OPEB cost | 40,235 |
| Payments made | (42,242) |
| Increase/(Decrease) in net OPEB obligation | (2,007) |
| Net OPEB obligation - beginning of year | 111,067 |
| Net OPEB obligation - end of year | 109,060 |

PGW's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY2013 and the preceding years is as follows:

(Amounts in Thousands of USD)

| Fiscal Year Ended | | Annual OPEB Cost | Percentage of Annual OPEB Contributed | | Net OPEB Obligation |
|---|---|---|---|---|---|
| 8/31/2013 | $ | 40,235 | 105.00% | $ | 109,060 |
| 8/31/2012 | | 46,105 | 96.50% | | 111,067 |
| 8/31/2011 | | 45,691 | 91.31% | | 109,448 |

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

## 4. PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

**PICA,** a body corporate and politic, was organized in June 1991 and exists under and by virtue of the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the Act). Pursuant to the Act, **PICA** was established to provide financial assistance to cities of the first class. The City currently is the only city of the first class in the Commonwealth of Pennsylvania. Under the Act, **PICA** is administered by a governing Board consisting of five voting members and two ex officio non voting members. The Governor of Pennsylvania, the President Pro Tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives and the Minority Leader of the Pennsylvania House of Representatives each appoints one voting member to the Board.

The Act provides that, upon **PICA's** approval of a request of the City to **PICA** for financial assistance, **PICA** shall have certain financial and oversight functions. First, **PICA** shall have the power to issue bonds and grant or lend the proceeds thereof to the City. Second, **PICA** also shall have the power, in its oversight capacity, to exercise certain advisory and review powers with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City and to certify noncompliance by the City with its current five-year financial plan (which certification would require the Secretary of the Budget of the Commonwealth of Pennsylvania to cause certain Commonwealth payments due to the City to be withheld).

PICA bonds are payable from the proceeds of a **PICA** tax on the wages and income earned by City residents. The City has reduced the amount of wage and earnings tax that it levies on City residents by an amount equal to the **PICA** tax so that the total tax remains the same. **PICA** returns to the City any portion of the tax not required to meet their debt service and operating expenses. In Fiscal 2013 this transfer amounted to $314 million.

## 5. RELATED PARTY TRANSACTIONS

The City is associated, through representation on the respective Board of Directors, with several local governmental organizations and certain quasi-governmental organizations created under the laws of the Commonwealth of Pennsylvania. These organizations are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate independent governmental entities. A list of such related party organizations and a description of significant transactions with the City, where applicable, is as follows:

### A. SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (SEPTA)

During the year the City provided an operating subsidy of $65.17 million to SEPTA.

### B. OTHER ORGANIZATIONS

The City provides varying levels of subsidy and other support payments (which totaled $199.9 million during the year) to the following organizations:

- Philadelphia Health Management Corporation
- Philadelphia Industrial Development Corporation
- Fund For Philadelphia Incorporated
- Philadelphia Housing Authority

## 6. RISK MANAGEMENT

### A. PRIMARY GOVERNMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City (except for Aviation Fund operations, the Municipal Authority and PICA) is self-insured for fire damage, casualty losses, public liability, Workers' Compensation and Unemployment Compensation. The Aviation Fund is self-insured for Workers' Compensation and Unemployment Compensation and insured through insurance carriers for other coverage.

The City covers all claim settlements and judgments, except for those discussed above, out of the resources of the fund associated with the claim. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include: an estimate of claims that have been incurred but not reported; the effects of specific, incremental claims adjustment expenditures, salvage, and subrogation; and unallocated claims adjustment expenditures.

At June 30, the amount of these liabilities was $356.1 million for the Primary Government. This liability is the City's best estimate based on available information. Changes in the reported liability since June 30, 2011 resulted from the following:

(Amounts in Millions of USD)

| | Beginning Liability | Current Year Claims and Changes In Estimates | Claim Payments | Ending Liability |
|---|---|---|---|---|
| Fiscal 2011 | 371.3 | 82.0 | (99.8) | 353.5 |
| Fiscal 2012 | 353.5 | 102.1 | (99.8) | 355.8 |
| Fiscal 2013 | 355.8 | 101.6 | (101.3) | 356.1 |

The City's Unemployment Compensation and Workers' Compensation coverages are provided through its General Fund. Unemployment Compensation and Workers' Compensation coverages are funded by a pro rata charge to the various funds. Payments for the year were $4.6 million for Unemployment Compensation claims and $63.8 million for Workers' Compensation claims.

The City's estimated outstanding workers' compensation liabilities are $287.8 million discounted at 3.5%. On an undiscounted basis, these liabilities total $375.8 million. These liabilities include provisions for indemnity, medical and allocated loss adjustment expense (ALAE). Excluding the ALAE, the respective liabilities for indemnity and medical payments relating to workers' compensation total $259.9 million (discounted) and $339.9 million (undiscounted).

During the last five (5) fiscal years, no claim settlements have exceeded the level of insurance coverage for operations using third party carriers. None of the City's insured losses have been settled with the purchase of annuity contracts.

### B. COMPONENT UNITS

The City's Component Units are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The **SDP** has self-Insured Medical Benefits and Workers' Compensation coverage which is funded by a pro-rata charge to the various funds while both the **SDP** and covered employees share the cost of Weekly Indemnity and Unemployment Compensation coverage. **SDP** does purchase certain other insurance. Most Component Units are principally insured through insurance carriers. Each entity has coverage considered by management to be sufficient to satisfy loss claims. These losses include: an estimate of claims that have been incurred but not reported; the effects of specific, incremental claims adjustment expenditures, salvage, and subrogation; and unallocated claims adjustment expenditures.

At June 30, the combined amount of these liabilities totaled $195.9 million for the City's Component Units. This liability is the best estimate based on available information. Changes in the reported liability since June 30, 2012 resulted from the following:

(Amounts in Millions of USD)

| | Beginning Liability | Current Year Claims and Changes In Estimates | Claim Payments | Ending Liability |
|---|---|---|---|---|
| Fiscal 2012 | 184.8 | 283.0 | (268.0) | 199.8 |
| Fiscal 2013 | 199.8 | 250.4 | (254.3) | 195.9 |

The **SDP** is exposed to various risks related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. As previously noted, the SDP is self-insured for casualty losses, public liability, Workers' Compensation, Unemployment Compensation, Weekly Indemnity (salary continuation during employee illness) and employee medical benefits.

The **SDP** maintains additional property (real and personal, valuable papers and records, fine arts, vehicles on premises and property under construction) insurance to cover losses with a deductible of $500,000 and a limit of $250.0 million. Also, certain insurance coverages including employee performance bonds and fire insurance are obtained.

## 7. COMMITMENTS

### COMPONENT UNITS

- The **SDP's** outstanding contractual commitments at year end for construction of new facilities, purchase of new equipment, and various alterations and improvements to facilities totaled $26.3 million.

- **SDP** is also an Intermediate Unit (IU) established by the Commonwealth to provide programs for special education and certain non-public school services. Conceptually, the cost of operating an IU for a fiscal year

is partially financed by Commonwealth appropriation. In certain instances (transportation) **SDP** reimburses the Commonwealth for the funds advanced in the previous year. The amount advanced for transportation of special education students is reimbursed in full less the Commonwealth's share of such cost as determined by a formula based on the number of students transported, route distances, and efficiency of vehicle utilization.

## 8. CONTINGENCIES

### A. PRIMARY GOVERNMENT

#### 1) Claims and Litigation

Generally, claims against the City are payable out of the General Fund, except claims against the City Water Department, City Aviation Division, or Component Units which are paid out of their respective funds and only secondarily out of the General Fund which is then reimbursed for the expenditure. Unless specifically noted otherwise, all claims hereinafter discussed are payable out of the General Fund or the individual Enterprise Fund. The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act", established a $500,000 aggregate limitation on damages arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation has been upheld by the United States Supreme Court. There is no such limitation under federal law.

Various claims have been asserted against the City and in some cases lawsuits have been instituted. Many of these claims are reduced to judgment or otherwise settled in a manner requiring payment by the City. The aggregate estimate of loss deemed to be probable is approximately $356.1 million. Of this amount, $26.1 million is charged to current operations of the Enterprise Funds. The remaining $330.0 million pertaining to the General Fund is reflected in the Government Wide Statements.

In addition to the above, there are certain lawsuits against the City for which an additional loss is reasonably possible. These lawsuits relate to General Fund and Enterprise Fund operations. The aggregate estimates of the loss which could result if unfavorable legal determinations were rendered against the City with respect to those lawsuits is approximately $75 million to the General Fund and $2.5 million to the Enterprise Funds.

Significant cases included in the current litigation against the City are as follows:

- **Condemnation of Tract of Land k/a Parcel C (within Eastwick Urban Renewal Area)**

In November 2003, the City filed a declaration of taking condemning certain property known as Parcel C within the Eastwick Urban Renewal Area Plan of 1958 for the benefit of Philadelphia International Airport. The Philadelphia Redevelopment Authority ("PRA") (formerly known as the "Redevelopment Authority of the City of Philadelphia" or "RDA") was the record title holder of the property. The City deposited in Court in April 2006 estimated just compensation in the amount of $7,714,000.

In 2007, Eastwick Development Joint Venture IX, L.P. and New Eastwick Corporation ("Eastwick Development") petitioned the Court for appointment of a Board of View and the Court appointed a Board of View to ascertain and award just compensation. Eastwick Development alleged they owned or held equitable interests in and certain development rights to the condemned property and had not received just compensation.

After a view of the premises and a hearing in July 2009, the Board of View filed a report with the Court in October 2009. The Board made an award of just compensation for the property of $13,500,500 (including attorney fee), subject to credit for the $7,714,000 million already paid and distributed. In addition, the Board awarded delay damages from the date of taking (11/18/03) until July 31,2009 in the amount of $3,298,200, and accruing thereafter until payment.

The City filed its appeal to the Court of Common Pleas in November 2009, requesting a jury trial de novo. The City objected, among other things, to the award of any compensation amount beyond that amount already paid into court, to evidentiary, procedural and substantive errors in the Board of View proceeding and award, and to the delay damage computation and award. Eastwick Development filed a separate appeal from the Board of View Report to the Court of Common Pleas in November 2009. Eastwick Development sought a jury trial de novo and objected to the sufficiency of the amount of compensation awarded.

The parties completed discovery. At a final pretrial conference, the Court issued an order consolidating the two separate appeals from the Board of View report and scheduled the case for trial. Subsequently, at the request of the parties, the Court adjourned the start of trial on the basis of a settlement in principle.

The parties signed as of December 13, 2011 a binding settlement term sheet providing for, among other things, discontinuance of the lawsuit, payment by City of $9.6 million, an amended redevelopment agreement, and release or transfer of property interests to City, all upon certain terms and conditions, and to take effect or occur on or before an Effective Date. If the conditions precedent and Effective Date do not occur, the settlement will expire and the parties will be restored to their previous litigation positions (with some modification to any accrual of delay damages). The Court ordered the case to remain in deferred status to allow for implementation of the settlement.

The parties have agreed to extend the potential Effective Date of the settlement until June 30, 2014. The case was marked settled by the Court. Should the settlement not be consummated on account of a failure of condition, the case may be restored, on the request of either party, as if the case had not been marked settled.

The City will vigorously contest the award if the settlement is not consummated. At this time, the City's attorneys are unable in their professional judgment to evaluate the likelihood of an unfavorable outcome in terms of probability and the range or amount of any loss assuming an unfavorable outcome. Any ultimate judgment would be paid from the Aviation Fund.

- **G&T Conveyor Co., Inc. vs. Ernest Bock & Sons, Inc, et al**

G&T commenced a civil action for declaratory and monetary relief against Bock, Liberty Mutual Insurance Company ("Liberty") and Fidelity and Deposit Company of Maryland ("Fidelity"), issuers of a payment bond on behalf of Bock. G&T sued Bock for, among other things, about $1.3 million in damages for work performed but unpaid by Bock; and for nearly $7 million in additional costs incurred as a result of construction delays G&T attributed to Bock.

Bock had successfully bid to perform general contractor work on the Airport's Terminal D&E expansion and modernization project for baggage system (Bid #6851; Contract #084002). G&T subcontracted with Bock to supply all necessary labor, supervision, material and equipment to furnish the baggage handling equipment. Bock's Purchase Order (subcontract) with G&T required that G&T perform and complete work in strict accordance with the Plans and Specifications, and eleven addenda and other terms and conditions prepared by Daroff Design Inc. (“DDI”), and in compliance with certain milestones and deadlines. G&T alleged that, by early 2010, the project was over 660 days behind schedule and its attempts to address and resolve delay and other problems with Bock had failed.

Bock answered the Complaint, denying responsibility, asserting affirmative defenses and counterclaiming against G&T for damages caused by G&T's alleged breach of its contract obligations. Bock also filed a "third party" complaint against City and others, particularly Chisom Electrical (reportedly a defunct entity).

Bock contended City was solely liable or liable with Bock to G&T on the "delay damages" claims made by G&T, pursuant to common law theories of indemnification and contribution. Bock also claimed City was liable to Bock for damages caused by City's material breaches of its contract with Bock. Bock alleges that these damages are approximately $1.7 million in addition to the G&T damages for which Bock seeks recovery from City.

City filed preliminary objections to the third party complaint, challenging its propriety and sufficiency but the Court overruled the objections and ordered the filing of an Answer. The City filed an Answer to Bock's third party complaint, asserting its defenses, counterclaims against Bock for indemnity and breach of contract and the bonding companies for indemnity, and added a fourth party claim against the designer of the project, DDI. The City thereafter made a tolling agreement with DDI. The Court dismissed Daroff from the case pursuant to a voluntary discontinuance of claims against Daroff.

The parties have completed the initially scheduled discovery and submitted expert reports. The Court denied City’s petition to dismiss the claims against it for lack of subject matter jurisdiction (City claimed in essence the absence of a justiciable controversy due to the incomplete status of the project and the absence of required inspection, testing and approval of the system). City filed a motion to amend its Answer to add a more specific defense of release. The Court granted that motion and City filed an Amended Answer. In addition, the City has asserted a liquidated damages claim against Bock, on account of the incomplete work, and has received delay claims from two other contractors, due to the unfinished work on the BHS project.

G&T filed a motion for partial summary judgment, opposed by Bock and City. After oral argument, the Court granted the motion solely as to legal interpretation of particular contract terms, and denied the balance. City and Bock filed motions for summary judgment that were opposed by G&T and both were denied.

Judge Snite agreed with the City and Bock that the case cannot be tried until at least the baggage handling system had successfully completed the integrated site acceptance testing ("ISAT"). Both the City and Bock filed Motions for Extraordinary Relief requesting that the Court reopen discovery and move the trial date to a later date, based primarily on the fact that the system had not passed ISAT. Judge Snite, on August 28, 2012, after an on-the-record conference, granted the Motions for Extraordinary Relief over G&T's opposition. As a result, Judge Snite reopened discovery and rescheduled trial.

Bock filed a Motion for Summary Judgment to preclude the City from assessing liquidated damages until the Court made a determination that such damages were allowed. The City opposed that Motion and cross-moved arguing that Bock's failure to provide any contractually-mandated analysis justifying delays warranted award of judgment to the City on the delays incurred to date.

TSA conducted another round of ISAT in August 2012. On September 5, 2012, the TSA issued a quick look report ("QLR") which noted that the BHS had failed ISAT. On September 7, 2012, the City issued a Notice of Default to Bock based on the QLR.

Subsequently, G&T filed a Motion asking the Court to declare that TSA conducted the ISAT according to the wrong standards and that future ISAT testing should be conducted differently. The City responded to that Motion with affidavits from TSA's testing agent, Battelle Memorial Institute, and from the City's security consultant noting that they had personally witnessed the testing and that the testing conformed to the applicable standards and that ISAT demonstrated that the BHS fails to meet the contract standards. The Court denied this Motion without prejudice.

The City also filed a Motion for Declaratory Judgment requesting the Court to determine that the BHS failed to meet the applicable standards and failed to pass ISAT, and therefore, Bock is in default of its contract. The City also requested that the Court determine that the City is entitled to get the source code for the BHS pursuant to the terms of the contract between the City and Bock. Bock and G&T responded and the Motion is currently pending. However, the Court did order that a copy of the source code currently on the BHS be placed in escrow pending further order of the Court.

On January 17, 2013, the City issued a Notice of termination to Bock for cause based on the failure of Bock to provide a working BHS that could pass ISAT. Bock brought a Motion for Special Injunction to enjoin the Notice of Termination. On January 23, 2013, the Court stayed the "legal effect" of the Notice on Bock only, and not Bock's surety, until January 28, 2013 to allow the Judge to hear the matter. On January 28, 2013, Bock withdrew the Motion for Special Injunction, and the Termination became effective as to Bock on January 28. Bock has also issued a Notice of Termination to G&T on January 28 for failure to perform.

After termination, the Court ordered that G&T assist in the copying of all software and source code on the BHS and provide copies of all pass words and passcodes for the BHS and place all the information in escrow. As part of that order, the Court required that the BHS not be modified pending further order of the Court. G&T failed to comply with portions of the Order concerning copying and escrow. The City moved for contempt of the Order, and the Court held G&T in contempt.

Bock and G&T also moved to have the Court order testing to determine the status of the BHS at testing. The Court ordered that Alliant, a company previously under contract with both Bock and G&T, would perform the status quo testing. To the extent G&T requested testing different than G&T's requested testing, the Judge denied G&T's request. Testing was to begin by March 18, 2013 and conclude by April 5, 2013. Testing concluded on March 27, 2013 with Alliant determining that the BHS was not ready for ISAT and further demonstrating the basis for termination. As part of the testing order, the Court maintained requirement that the BHS not be modified pending further order of the Court.

On April 4, 2013, the Court transferred all of the Bock and City cases to another Judge. The City moved to remove the limitation on modification of the BHS. The Court held argument on the City's Motion to Lift the Stay on June 6, 2013. During this time, G&T had appealed to the Superior Court the Judge's denial of G&T's testing plan to the extent it was different than Bock's testing plan. On July 8, 2013, the Superior Court granted the City's Motion to squash G&T's appeal. That same day the City's Motion was granted to Lift the Stay.

Subsequently, G&T moved for permission to retest the BHS. On September 10, 2013, the Court granted G&T the opportunity to retest provided it met a number of requirements including securing TSA's approval and beginning testing by October 7, 2013. Testing did not begin by October 7 and TSA denied G&T's request to test. Testing was to conclude by November 11, 2013. On November 13, 2013, the Court issued an order which denied G&T's supplemental request to extend the time to test, held the time for testing had expired and stated that the Court's prior order allowing repairs to go forward remained in effect. Repair efforts have proceeded, with repairs and confirmatory testing scheduled to be completed in the first quarter of 2015.

Discovery is expected to close on February 28, 2014, and trial is scheduled for August of 2014. However, there is a pending Motion filed by G&T to extend the case management deadlines until after the completion of ISAT in 2015.

The City intends to mount vigorous defenses to defeat Bock's claims (both Bock's delay claims and the G&T pass-through claims). The City's lawyers reasonably believe that the third party plaintiffs will not likely succeed on their claims or for the amount of damages sought and that the City's defenses have merit.

- **Pingitore vs. John Green and O'Hara vs. City**

John O'Hara and Finn Land Corporation filed a now consolidated putative class action on behalf of classes of former property owners whose property was subject to a sheriff's sale. They claim for themselves and the class an entitlement to excess funds from Sheriff's sales of their properties.

In the consolidated action, Plaintiffs allege that they are owed excess proceeds of approximately $9,000 and $10,000 respectively from the sheriff's sale of two properties that were not paid to them. They assert claims in unjust enrichment, equitable conversion, fraudulent concealment, violation of the Pennsylvania Constitution, mandamus relief, an award of damages to plaintiffs and the class of the excess proceeds due them, interest, attorney's fees and costs and all such other relief that the Court deems proper.

The Court granted the Treasurer's request to intervene in the consolidated lawsuit and subsequently denied plaintiffs' motion for class certification. Plaintiffs have appealed that denial to Commonwealth Court.

If the class were to be certified, it is unclear the number of class members entitled to relief, whether the plaintiffs will succeed on the merits and whether plaintiffs will recover from City monetary damages in excess of $8,000,000.

- **Lower Darby Creek Area Superfund Site**

In 2001, the U.S. Environmental Protection Agency (EPA) added the Lower Darby Creek Area (Site) to the National Priority List, EPA's list of the most serious uncontrolled or abandoned hazardous waste sites. The Site includes two former municipal landfills: the Folcroft Landfill and the Clearview Landfill. In 2002, EPA sent the City a letter alleging that the City is a Potentially Responsible Party (PRP) at the Clearview Landfill site. Designation as a PRP means the City may be jointly and severally liable with other PRPs for the site's clean-up costs. EPA has concluded that the City owns the Recreational Property and streets adjacent to the Clearview Landfill and alleges that there is a reasonable basis to believe there may be or has been a release or threat of release of hazardous substances, pollutants or contaminants at or from the City's property. Additionally, EPA alleges that the City "arranged" for the disposal of hazardous substances at the Clearview Landfill. The City received and responded to two separate requests from EPA for additional information. EPA completed the Remedial Investigation for the Clearview Landfill in May 2011 and a feasibility study of remedial options in October 2012. In August 2013, EPA issued a proposed plan identifying its preferred remedy and proposed cleanup plan. The comment period on the proposed plan expired at the end of September 2013. Once EPA reviews the public comments, it will issue a Record of Decision documenting the selected cleanup option. Because of the broad liability scheme under the federal Superfund law, Superfund litigation generally focuses not on avoiding a finding of liability, but rather on ensuring that the remediation is cost-effective and the allocation of costs among all parties identified as bearing some degree of liability is fair and reasonable. The total costs of the removal and remedial actions for which EPA may assert cost recovery claims are estimated to be in the range of approximately $30 million to $50 million. Insufficient information is available to the City at this time to determine the exact amount of those costs that will be allocated to the City, but based on existing information the City's allocated share may exceed 20% of the total cleanup costs or approximately ($6 million- $10 million).

- **Fraternal Order of Police grievance of deplorable conditions**

The police union, the FOP, has filed a grievance against the City protesting the conditions at police facilities, including district stations, the Police Academy, Police headquarters and a number of other places. Because many of the facilities are old, upgrading them could potentially cost millions. However, the arbitrator's power to order remedies is limited. Additional hearings were held, and briefs submitted.

The arbitrator issued an interim award on April 6, 2013, finding that the City had breached the collective bargaining agreement and ordering the parties to create a working group. That group meets on a monthly basis and discusses what issues need to be addressed and the City's progress. Reports are sent to the arbitrator on a quarterly basis. If the parties are unable to resolve a dispute, the arbitrator retains jurisdiction to hold a hearing and issue an additional award. Under the interim award the City has not been exposed to excessive costs, but the FOP recently indicated that it would like to return to the arbitrator for additional remedies. Depending on what, if any, additional remedies are awarded, the City could face a substantial financial loss.

- **Appeals related to the State Tax Equalization Board assessment of real estate**

In July 2011 the State Tax Equalization Board (STEB) published a Common Level Ratio (CLR) of 18.1% for Philadelphia, significantly lower than the City's Established Predetermined Ratio (EPR) of 32% used to calculate assessed values for real estate tax purposes. If the CLR varies from the EPR by more than 15% (i.e., if it is not between 27.2% and 36.8%), then in any assessment appeals, the Board of Revision of Taxes (BRT) is directed by statute to calculate the assessed value using the CLR rather than the EPR as a percentage of the property's market value. In April 2012, in response to informal objections filed by the City and the Philadelphia School District, STEB raised the CLR to 25.2; that is not enough to avoid the use of CLR in calculating assessed value for real estate tax purposes, but it effectively halves the City's potential losses. The appeal period from STEB's increase to the CLR passed without any appeal being filed, so that number is now final.

For tax year 2012, about 2,000 taxpayers with property collectively valued at about $2 billion filed assessment appeals with the BRT. The School District filed cross-appeals seeking higher market values in all of those cases. Roughly 1,500 of those cases now have been resolved at a total estimated cost of $7 million. We believe a prudent yet reasonable (as opposed to worst case) estimate for the loss on the remaining 500 cases would be around $7.3 million for both the City and the School District.

New state legislation ("Act 131") mandates that 2013 real estate taxes will be based on 2011 assessed values (with adjustments for subsequent demolitions and improvements) and will not be subject to adjustment for the common level ratio, so this issue should not resurface next year. Act 131 also mandates the adoption of actual values for 2014 real estate taxes; therefore this issue also should not arise for 2014 real estate taxes because the CLR does not apply to assessment appeals made immediately after a full reassessment. To date, about 857 taxpayers with property collectively valued at about $814 million filed assessment appeals with the BRT. The School District filed cross appeals in all cases deemed appropriate. The deadline to file an assessment appeal for 2013 expired on October 1, 2013 for all but about 5,000 taxpayers. We believe a prudent yet reasonable estimate of the amount of potential loss on the 800 cases for 2013 would be less than $5 million.

- **Reach Communications Specialists, Inc (Reach) vs. Jewell Williams, Sheriff, et al**

Reach, for itself and t/a RCS Searchers, Inc., commenced an action by writ of summons in Court of Common Pleas of Philadelphia County in January 2013 against, among others, Sheriff Williams in his official capacity, the City of Philadelphia, Alan Butkovitz, Controller in his official and individual capacity and Barbara Deeley, former Acting Sheriff, in her individual and official capacity ("collectively City Defendants"). Reach thereafter filed a complaint. The following summary is drawn from the complaint.

Reach pleaded federal law and state law claims for damages against City Defendants. Reach alleged in pertinent part that Acting Sheriff Deeley, immediately after her appointment as Acting Sheriff and following the retirement of former Sheriff Green, in January 2011, "unlawfully" terminated cettain alleged contracts ("Alleged Contracts") made between former Sheriff Green and Reach/RCS for advettising and printing services, settlement services, distribution policies of title insurance, and computer systems and website technical support and services, relating to the official functions of the Office of the Sheriff in connection with judicial sales of real property. Reach further alleged that it had provided (and expected to continue to render), such services or distribution policies pursuant to those Alleged Contracts (a series of oral and written agreements and amendments with former Sheriff Green or his staff).

Reach asserted that it has been a minority-owned and controlled corporation, with mostly black employees, and has acquired an imputed racial identity as a "black corporation". Reach also asserted that it actively and publicly supported and assisted Sheriff Green's efforts to help homeowners from foreclosure sales and to maintain the power and office of Sheriff from its alleged dissolution.

Reach alluded to certain official actions taken, statements made, familial connections and employment relationships by the former Sheriff, her daughter and Controller Butkovitz or by and between Chief Deputy Sheriff Vignola and Lexington officials, in connection with the Controller's audit of Sheriff Office operations (and critical Auditor's Report), the engagement of Lexington Technology Auditing, Inc. ("Lexington") to assist in that audit and the information Lexington purportedly obtained about Reach, and the President Judge of the Court of Common Pleas' involvement in the termination of Reach and First Judicial District's hiring of Lexington. Reach contended that these relationships, actions and statements established improper motivation and conspiratorial conduct to terminate the Alleged Contracts unlawfully and take over the functions, powers and monies of Sheriff's Office. Additionally, Reach contended that the termination of Reach's Alleged Contracts fits into a pattern and practice of racial discrimination engaged in by Acting Sheriff Deeley and results from her retaliatory animus or conspiratorial activity.

Reach made claims for damages (compensatory and punitive), interest, attorneys fees and costs under 42 U.S.C. §§1983 and 1985(3) arising out of former Sheriff Deeley's termination of the Alleged Contracts and her (and current Sheriff Williams') refusal to continue the relationships. In summary, Reach alleged: deprivation of property without due process by former Sheriff Deeley and Sheriff Williams; retaliation by City and City Official Defendants for protected First Amendment conduct in violation of the First Amendment; racial discrimination by Controller Butkovitz, former Sheriff Deeley and Sheriff Williams in violation of 42 U.S.C. § 1981; and conspiracies by all in violation of Section 1983 and 42 U.S.C. § 1985(3).

Reach also made claims for damages against Sheriff Williams, in his official capacity, for breach of contract, or alternatively promissory estoppel or unjust enrichment, and against City for breach of contract or alternatively unjust enrichment. Reach asserted in substance that Sheriff Williams (or City) refused to be bound by the Alleged Contracts, alleged promises of Green or implied restitutionary obligations and refused to pay post-termination any alleged unpaid balances due and owing for services rendered. Reach contended such actions resulted in breach of those Alleged Contracts (or alternatively) necessitated enforcement of Green's promises to pay to avoid injustice or justified creation of implied contracts (at law) to avoid unjust enrichment.

The City Defendants, with the consent of other co-Defendant Lexington Technology Auditing, Inc. ("Lexington"), removed the action to federal court, specifically the Eastern District of Pennsylvania. The case was assigned to a Federal Judge.

Lexington and City Defendants filed motions to dismiss the Complaint and Reach responded. The Court denied the motions by Order of August 12, 2013. The Court scheduled a Rule 16 conference. As a result of the conference, based on the Court's determination that continued litigation may interfere with an ongoing criminal investigation, the Court issued an order placing the case in suspense (deferred status).

If and when the case is removed from suspense status and litigation resumes, The City (and City Defendants in their official capacities) intend to pursue defenses and potentially counterclaims vigorously to defeat Reach's claims. At this very early stage of the action, and based on filed papers and matters of record, the City's lawyers reasonably believe that Reach will not likely succeed on their claims or for the amount of damages sought and that the City's defenses/counterclaims have merit.

- **Grubel vs. City of Philadelphia, et al**

This is a class action lawsuit in the Court of Common Pleas by a class of Election Day workers who worked in one or more elections in Philadelphia from November 2005 to the present. They claim they should have been paid at least the "minimum wage" per the Philadelphia 21st Century Minimum Wage Standard, Chapter 17-1300 of the Philadelphia Code. The Ordinance requires covered employers to pay each employee an hourly wage of at least 150% of the federal minimum wage. Plaintiffs contend that they are "employees" of the City for purposes of the Ordinance. Employers who violate the Ordinance are liable for back pay plus attorneys' fees and costs.

Philadelphia minimum wage is $10.88 for covered employees. The plaintiffs contend they should have been paid at least $152.25 per day or $137.55 per day, depending on the year, if the Ordinance applies to them. The City paid these workers, in compliance with the State Election Code, on a per diem, rather than hourly, basis. Judges of Election (one at each polling place) were paid $100 per day; the remaining workers received $95 per day. We estimate the total back pay that would be payable to the plaintiff class is approxi-

mately $6.6 million. The addition of prejudgment interest (at 6%) and attorneys' fees raises the total potential liability to about $8.4 million.

The City Commissioners Office requested and was granted a waiver from the Office of Labor Standards. Such a waiver is expressly permitted by the Ordinance and excuses the employer from the obligation to the Philadelphia minimum wage. This should cut off any potential liability for the May 2013 and all future elections. However, the plaintiffs contend that the waiver establishes that the City was liable to pay pursuant to the Ordinance before the waiver, and is now estopped from continuing to assert that the election workers were not covered employees under the Ordinance. The plaintiffs also contend that the change to the Home Rule Charter in 2010 did not grant City Council the right to regulate compensation of City employees; it "merely confirmed" Council's pre-existing authority. This is based on the wording of the amendment as submitted to the voters.

The Court has denied plaintiffs' motion for summary judgment. The case had been scheduled for trial starting June 3, 2013, but the Court instead ordered the parties to participate in mediation. The mediator proposed some parameters for a partial settlement, which the City considered, but decided that if a global settlement was not possible, it would be in the City's interest to defend the action globally.

A conference was held February 11, 2014 by the Judge, who will decide a pending motion and who will probably allow the City to file another motion for summary judgment.

- **Ernest Bock & Sons, Inc. vs. City of Philadelphia**

Ernest Bock & Sons, Inc. filed a suit against the City on February 6, 2014, seeking $5,900,000 in damages plus penalty, interest, and attorney fees arising out of alleged contract delays and change orders in a contract at Philadelphia International Airport (Bid No. 6843, Contract No. 084016) for Terminal D-E Bag Claim Expansion & Ticketing Renovations. The complaint includes counts for declaratory judgment, breach of contract, violation of Pennsylvania's Contracts for Public Works Statute, and quantum meruit. The City expects to contest the claim vigorously.

- **District Council 33, District Council 47 and Firefighter's union contracts**

Union contracts for District Council 33, District Council 47 and the International Association of Firefighters are currently unresolved. Some funds have been set aside in FY14-FY18 Five Year Plan as a reserve for the costs of these agreements in the future; however, the full amount of costs cannot be calculated until the contracts are resolved.

- **Prison Overcrowding**

A Prison Overcrowding case is currently in the discovery phase. At the conclusion of the discovery phase, the city anticipates filing a summary judgment motion, which could be ruled upon in mid to late calendar year 2015. Also, the city feels it has valid defenses to the claims. In the event that the City is unsuccessful, monetary damages are unlikely, however, there is potential exposure for capital expenditures in excess of $8 million.

**2) Guaranteed Debt**

The City has guaranteed certain debt payments of two of its component units. As such, the City's General Fund has a potential financial obligation toward the extinguishment of this debt, either by replacing the various reserve funds, if used, or the actual payment of principal or interest. At June 30, principal balances outstanding were as follows:

(Amounts In Thousands of USD)

| | |
|---|---|
| HUD Section 108 Loans | 112,740 |
| Philadelphia Parking Authority | 14,250 |
| Total: | 126,990 |

### 3) Single Audit

The City receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and entitlements. The disbursement of funds received under these programs generally requires compliance with terms and conditions as specified in the grant agreements, and is subject to audit. Any disallowed claims resulting from such audits and relating to the City or its component units could become a liability of the General Fund or other applicable funds. In the opinion of City officials the only significant contingent liabilities related to matters of compliance are the unresolved and questioned costs in the City's Schedule of Financial Assistance to be issued for the fiscal year ended June 30, 2012, which accounted for $968.3 million for all open programs as of December 27, 2013. Of this amount, $540.1 million represents unresolved cost due to the inability to obtain audit reports from sub-recipients for the year ended June 30, 2012 due to timing differences in audit requirements, $80.2 million represents questioned costs due to the inability to obtain sub recipient audit reports for the fiscal years June 30, 2012 and prior and $348.0 million represents questioned costs related to specific compliance requirements which have yet to be resolved.

### 4) HUD Section 108 Loans

As of the end of the fiscal year, the Federal Department of Housing and Urban Development (HUD) had disbursed $267.1 million in loans to the Philadelphia Industrial Development Corporation (PIDC). The funds, which were used to establish a loan pool pursuant to a contract between the City and HUD, are being accounted for and administered by PIDC on behalf of the City. Pool funds are loaned to businesses for economic development purposes. Loan repayments and investment proceeds from un-loaned funds are used to repay HUD. Collateral for repayment of the funds includes future Community Development Block Grant entitlements due to the City from HUD. The total remaining principal to be repaid to HUD for all loans at the end of the year was $112.7 million.

### 5) Act 148 Children and Youth Program Activities Moved to Grants Revenue Fund

In previous fiscal years the Act 148 Children and Youth Program, reimbursed by the Commonwealth of Pennsylvania, was accounted for in the General Fund. Starting in fiscal year 2012, the reimbursable portion of this program was accounted for in the Grants Revenue fund, and the non-reimbursable portion continues to be accounted for in the General Fund. At June 30, 2012 the Grants Revenue Fund had a $132.5 million receivable for the Children and Youth program. In FY2013 the Grants Revenue fund had expenditures totaling $457.8 million and revenue totaling $437.3 million. At June 30, 2013 the Grants Revenue Fund had a $153 million receivable for the Children and Youth Program. Due to the nature of the program's billing policies, the city has 24 months after the current fiscal yearend date to submit a final reimbursement request. If receivables for program costs submitted for reimbursement are subsequently deemed as ineligible, such non-reimbursable costs will be charged to the General Fund.

## B. COMPONENT UNITS

### 1) Claims and Litigation

***Special Education and Civil Rights Claims –*** There are two hundred eighty-seven (287) various claims against the School District, by or on behalf of students, which aggregate to a total potential liability of $1.9 million.

Of those, two hundred seventy-seven (277) are administrative due process hearings and appeals to the state appeals panel pending against the School District. These appeals are based on alleged violations by the School District to provide a free, appropriate public education to students under federal and state civil rights, special education or the Rehabilitation Act and anti-discrimination laws. In the opinion of the General Counsel of the School District, one hundred and thirty-nine (139) unfavorable outcomes are deemed probable and one hundred and seventeen (117) are considered reasonably possible, in the aggregate of $1.0 million and $0.4 million respectively.

There are three (3) lawsuits pending against the School District asserting claims in violation of §1983 of the Civil Rights Act. In the opinion of the General Counsel of the School District, unfavorable outcomes of two (2) are deemed probable in the aggregate amounts of approximately $0.03 million.

There are six (6) suits in federal court by parents of special education students for reimbursement for attorneys' fees and costs in administrative proceedings and appeals to court in which the parents were prevailing parties. In the opinion of the General Counsel of the School District, unfavorable outcomes are deemed probable and reasonably possible in the aggregate amounts of approximately $0.22 million and $0.05 million

respectively.

Another special education case which the School District is considering whether to file a petition with the Supreme Court of the United States is deemed by General Counsel to be reasonably possible in the amount of $0.1 million.

***Other Matters -*** The School District is a party to various claims, legal actions, arbitrations and complaints in the ordinary course of business, which aggregate to a total potential liability of $24.1 million. In the opinion of the General Counsel of the School District, it is unlikely that final judgments or compromised settlements will approach the total potential liability, however. Nevertheless, the School District annually budgets an amount that management believes is adequate, based on past experience, to provide for these claims when they become fixed and determinable in amount. More particularly, compromised settlements or unfavorable outcomes are deemed probable or reasonably possible in the amounts of $2.4 million and $6.1 million, respectively, in connection with disputed contracts and labor and employment matters. Likewise, compromised settlements or unfavorable verdicts are deemed probable or reasonably possible in the aggregate amounts of $1.9 million and $2.7 million, respectively, arising from personal injury and property damage claims and lawsuits.

***Education Audits -*** In the early 1990s, the School District received basic education subsidies from the Commonwealth of Pennsylvania based primarily on student average daily membership ("ADM"). In July of 1995, the Department of Education notified the School District that an audit conducted by the Auditor General for fiscal years ending in 1991, 1992 and 1993 indicated over-reporting of student ADM in fiscal year 1991, the year established by the Commonwealth as the base year calculation for all subsidies through fiscal year 1999. Consequently, a claim for reimbursement due was initially estimated at approximately $40 million through fiscal year 1999, and subsequently reduced by half, to approximately $20 million, as a result of additional reviews of School District documentation. In May 1999, the School District appealed the adverse determination to the Secretary of Education, as provided by law. The Secretary was to appoint a hearing officer to consider the matter further. During the pendency of the dispute over the adequacy of documentation to support 1991 student ADM figures, an audit of reported ADM in school years 1994-95 through 1996-97 was also undertaken. The Department of Education asserted a claim for an additional $20 million for the alleged over-reporting of ADM during those periods. The School District has denied this additional claim and has produced supporting documentation to the Secretary of Education. As part of an agreement with the School District, the Commonwealth postponed all potential collection actions in this category while both matters remain pending.

The Pennsylvania Auditor General's Bureau of Audits conducted a performance audit of the School District's pupil membership and attendance reporting procedures for the 2009-2010 school year, and issued a draft report on October 26, 2011. The School District's response to the draft report was filed on December 16, 2011. The final audit report was issued on February 14, 2012, including the School District's corrective action plan. Because no final determination of forgiveness has been made, however, there remains a reasonably possible loss in this category on the amount of $40 million.

***Federal Audit*** - The U.S. Department of Education Office of the Inspector General ("OIG") conducted an audit of the School District's controls over Federal expenditures for the period commencing July 1, 2005 through June 30, 2006. A preliminary draft audit report was issued by the OIG in May, 2009. In accordance with applicable audit standards, the School District responded to the draft audit findings in August, 2009, supporting the vast majority of the expenditures questioned. On January 15, 2010, the OIG issued an audit report, assessing the School District's management of federal grant funds during the 2006 fiscal year. The report identified $138.8 million in findings resulting from the audit of controls over federal expenditures, of which $121.1 million were considered inadequately supported and $17.7 million were considered unallowable costs. The report included five findings, the largest of which related to undocumented salary and benefits charged to federal programs in the amount of $123 million.

As of June 30, 2013 and continuing until the date of this letter, in the opinion of outside counsel, the School District has potential material liability related to the OIG audit issued in January 2010. The OIG issued an audit report to the School District assessing the School District's management of federal grant funds during the 2006 fiscal year.

To date, the U.S. Department of Education (DOE) has issued two program determination letters (PDLs) related to the 2010 audit report seeking a recovery of funds. The PDLs were issued to the Pennsylvania Department of Education (PDE) and appeals of both are pending. DOE issued a third PDL on the remaining findings that required corrective actions, but did not result in monetary exposure. Most of the corrective actions have already been implemented or are being addressed as part of the corrective action plan agreed upon with the PDE and DOE. DOE has indicated that it may issue a fourth (final) PDL related to the 2010 audit seeking a recovery of questioned costs under Funds for the Improvement of Education (FIE) and Gain-

ing Early Awareness and Readiness for Undergraduate Programs (GEAR UP). The fourth PDL will likely result in additional sustained liabilities related to these programs; however, the District has arguments to defend against the recovery.

The first PDL demanded a recovery of $9.9 million and was appealed to the Office of Administrative Law Judge. Of that amount, DOE's counsel stipulated to approximately $2.8 million as barred by the statute of limitations, leaving a balance of $7.2 million. To extinguish the remaining liability, the School District submitted, on April 27, 2012, documentation for equitable offset. The case is briefed and the Administrative Law Judge may issue the decision entirely on the bases of the briefs, or may schedule a hearing. Once the initial decision is rendered by the Administrative Law Judge, either party may request a review of that initial decision by the Secretary. The Secretary may affirm, remand or set aside the decision. The Secretary's final decision may be appealed to the U.S. Court of Appeals for the Third Circuit.

The second PDL demanded a recovery of $2.5 million. That PDL was not timely appealed by PDE. However, the PDL invited the State to present evidence to DOE of the amount barred by the statute of limitations. PDE and the School District have assembled documentation demonstrating the application of the statute of limitations. DOE will then review the documentation and indicate what costs DOE agrees are barred by the statute of limitations.

On December 18, 2012, DOE's office of the Chief Financial Officer (OCFO) requested the School District provide additional documentation $341,693 of questioned GEAR UP expenditures. The School District provided documentation supporting $281,858 of the costs at issue to OCFO, as well as evidence covering the remaining liability through equitable offset, on January 30, 2013. The School District continued to work with OCFO regarding the documentation requests, and provided additional evidence on April 12, 2013. In April 2013, OCFO also asked about costs related to the FIE program. The School District provided the requested supporting documentation for FIE expenditures to OCFO on May 1, 2013. To date, DOE has not issued a formal determination regarding these expenditures.

Because of the long appeal process, no assurance can be given as to the final resolution of the OIG audit findings, or the amounts, if any, which may be required to be repaid by the School District at this time.

Therefore, no assurance can be given by outside counsel as to the final resolution of the audit, the amounts, if any, which may be required to be repaid by the School District or whether such repayments could have a material adverse effect on the financial condition of the School District. Of the $9.7 remaining exposure from the $138.8 million of findings, the School District is optimistic that all of the liability included on the PDLs will be eliminated based on the application of the statute of limitations and equitable offset. In the opinion of the School District, with regard to the March PDL and the September PDL, the likelihood of a recovery by USDE in the amount of $9.7 million is remote.

***The School District of Philadelphia 403(b) Plan and 457(b) Deferred Compensation Plan***

Pursuant to resolutions approved by the School Reform Commission, the School District implemented The School District of Philadelphia 403(b) Plan ("403(b) Plan") and The School District of Philadelphia 457(b) Deferred Compensation Plan (the "457(b) Plan")(collectively, the 403(b) Plan and the 457(b) Plan shall be known as the "Plans") in fiscal years 2005 and 2006. The School District obtained advice from outside legal counsel on the creation of the Plans and on the appropriate tax treatment of automatic and mandatory employer contributions of termination pay to the Plans for employees retiring during or after the calendar year in which they attain age 55. Termination pay is the accrued and unpaid amounts of vacation, personal and sick leave for a resigning or retiring employee. Prior to July 1, 2005, the School District, after withholding all applicable payroll taxes, (i) would pay termination pay owed to a resigning or retiring employee in cash or, (ii) at the direction of the employee, would deposit such termination pay into the retiring or resigning employee's 403(b) account up to the annual contribution limit for section 403(b) accounts. For employees retiring or resigning during or after the calendar year in which they attain age 55, after June 1, 2005, the School District eliminated payment of termination pay in cash and replaced it with an automatic and mandatory employer contribution of termination pay to the Plans up to the annual contribution limits for such Plans. Based on the advice of legal counsel, the School District has treated its termination pay contributions to the 403(b) Plan as employer contributions to a retirement plan, which are not included in employee wages and are not subject to FICA, Pennsylvania Personal Income Tax or Philadelphia Wage Tax. Since employer contributions to a 457(b) Plan are considered wages for FICA purposes, the School District has withheld FICA taxes from its termination payments made to the 457(b) Plan. Employer contributions to 457(b) Plan are not subject to Pennsylvania Personal Income Tax or Philadelphia Wage Tax. For that reason, the School District has not withheld those taxes from its termination pay contributions to the 457(b) Plan. Outside legal counsel advised on the arrangement and has provided an opinion as to its proper tax treatment. By letter dated October 16, 2012, the IRS stated that the School District is following its revised policy concerning the treatment

of termination pay under the 403(b) Plan, and thus no federal employment tax liability exists. By letter dated November 18, 2013, the Department of Revenue of the City of Philadelphia determined that the contributions of termination pay to the 403(b) Plan are employer contributions, and, as such, are not subject to City Wage Taxes at the time of contribution, and the School District is not required to withhold City Wage Tax from such contributions. The School District management believes that if it were finally determined that any liability for State taxes (including interest and penalties) relating to these plans existed at June 30, 2013, such liability would not be material to the School District's financial position or results of operations for the fiscal year ended June 30, 2013.

***Administrative Appeals in Pennsylvania Department of Education***

The School District received several subsidy withholding requests filed with the Pennsylvania Department of Education (PDE) by charter schools that have enrolled resident students from the School District. These withholding requests address whether the PDE's charter school funding form (PDE-363) used to calculate charter school tuition contains an allowance for improper deductions in the calculation of the regular education expenditure. The issue is not whether the School District made improper calculations on the form, but whether the form itself is flawed, in that PDE has authorized federal funding to be deducted from the expenditure calculation in violation of the law. This is an issue pending with respect to more than 200 subsidy withholding requests were submitted to PDE, seeking additional subsidies from school districts throughout the Commonwealth, all of which requests raise the same issue.

Because there are over 200 appeals pending, PDE elected to select four cases involving Pittsburgh School District and charter schools as example cases on the legal issues involved. PDE has assigned a Hearing Officer to hear these administrative appeals and to make a recommendation to the Secretary of Education. The School District of Philadelphia intends to Petition to Intervene in the example case so that the School District's interests can be adequately represented. It is not yet known when that Petition will be filed or if the School District will be permitted to intervene. The direct cases against the School District are currently stayed pending the outcome of the example case.

The School District intends to vigorously defend its position in this matter, both as an intervenor and as a party, if the direct cases against the School District ever move forward. It is the belief of the School District – and of PDE according to their own form and guidance documents – that federal funding is not appropriately included in the calculation of charter school funding due to the nature of the funding itself and the fact that charter schools are equally eligible for the same federal funding as school districts. Although it is impossible to determine with any degree of certainty, based upon our evaluation of the case and the legal claims, it is the opinion of outside counsel that there is a high likelihood of success for the School Districts' positions in this matter. The likelihood of an unfavorable outcome, in the opinion of outside counsel, would be between reasonably possible and remote. If, however, the charter schools successfully argue that they are entitled to a portion of the School District's federal funding, the exposure to the School District is approximately $5.7 million in terms of the pending withholding requests of which we are aware. The exposure in terms of future effects if the PDE-363 form is invalidated and all charter schools are permitted, going forward, to receive a portion of the School District's federal funding on an annual basis, is estimated to be upwards of $100 million each year.

On December 9, 2013, the lead petitioner Urban Pathways 6-12 Charter Schools withdrew its requests for withholding and reimbursement from Pittsburg Public Schools. The proceedings are in suspense until PDE determines who will be the lead petitioner.

## 9. SUBSEQUENT EVENTS

In preparing the accompanying financial statements, the City has reviewed events that occurred subsequent to June 30, 2013 through and including February 24, 2014. The following events are described below:

### A. PRIMARY GOVERNMENT

1) In July 2013, the City issued $208 million of General Obligation Bonds Series 2013 A. Serial bonds were issued with interest rates ranging from 1% to 5.25%. The 2013 Bonds were issued to provide funds for a portion of the city's capital program, for the purpose of refunding Series the City's outstanding Series 2003 A General Obligation Bonds and for the cost relating to the issuance of the 2013 Bonds.

2) In August 2013, the City issued Water and Wastewater Revenue Bonds Series 2013 A in the amount of $170 million. Serial bonds were issued in the amount of $120 million with interest rates ranging from 3% to

5% and have a maturity date of 2023. Term Bonds were issued in the amount of $50 million with an interest rate of 5.125% and mature in 2043. The proceeds of the bonds together with other available funds of the City's Water Department will be used to finance capital improvements to the City's Water and Wastewater systems, a deposit to the Debt Reserve account of the Sinking Fund and the cost of issuance relating to the Bonds.

3) In December 2013 the city issued $100 million of Tax and Revenue Anticipation Notes (TRAN), Series A of 2013-2014 to provide cash to supplement the receipts of the City in the General Fund for the purpose of paying the general expenses of the city prior to receipt of taxes and other revenues to be received in the current fiscal year and pay the costs of issuance of the Notes. The proceeds will be invested and repaid by June 30, 2014.

4) Through January 24, 2014 drawdowns totaling $23.6 million represent new loans from the Pennsylvania State Infrastructure Financing Authority ("PENNVEST") for: Water Treatment Plant ($2.9 million); Sewer Piping Replacement ($.8 million); Water Main Replacement ($1.4 million); Green Infrastructure ($18.5 million).

5) In January 2014 the City issued Water and Wastewater Revenue Bonds Series 2014A in the amount of $123.2 million. Serial Bonds were issued for $93.2 million with interest rates ranging from 3.0% to 5.0% maturing July 1, 2027. Term bonds were issued in the amount of $30 million with a 5.0% interest rate maturing July 1, 2043. The purpose of the bonds is to provide funds that will be used for the advance refunding of a portion of the City's outstanding Water and Wastewater Revenue Bonds, Series 2005A, capital improvements to the City's Water and Wastewater System, a deposit to the Debt Reserve Sinking Fund and the cost of issuance relating to the bonds.

6) In February 2014 the City issued General Obligation Refunding Bonds, Series 2014A in the amount of $154.3 million. Serial Bonds were issued in the amount of $112 million with interest rates ranging from 3.0% to 5.25% and mature July 15, 2034. Term Bonds were issued in the amount of $42.3 million with an interest rate of 5.0% and mature July 15, 2038. The 2014 Bonds were issued to refund certain maturities of the City's outstanding General Obligation Bonds, Series 2008B and for the payment of the cost relating to the issuance of the Bonds.

7) During fiscal year 2013, the City engaged a team of legal and financial advisors, as well as brokers, to assist with a process to consider the sale of PGW to a private entity. Lazard Frères & Co. LLC is serving as financial advisor and has conducted a financial review of the proposed transaction, including an analysis of the anticipated loss to the City of the $18 million annual payment from PGW. Lazard prepared a report for the City, which was completed in October 2013. The City's brokers, J.P. Morgan Securities LLC and Loop Capital Markets LLC, are assisting the City in managing the bidding process. On August 30, 2013, the City received more than 30 responses to its Request for Qualifications from potential bidders, and later received indicative bids from a number of prequalified bidders on November 1, 2013. A short-list of bidders was approved to continue in the process, and final bids were received on January 31, 2014. Negotiations with potential Buyers are underway, and the City expects to finalize the terms of any sale in February/March 2014. If an agreement is reached, the sale must then be authorized by Philadelphia City Council and approved by the Pennsylvania Public Utility Commission. It should be noted that no sale can be finalized without providing for the defeasance of the City's outstanding Gas Works Revenue Bonds and Notes. After all outstanding PGW obligations are met, it is the City's intention to utilize the proceeds of the Sale to fund other long-term obligations of the City, most likely through a deposit into the City's Pension fund. As part of the evaluation of the benefits of the sale, the City will be conducting a more detailed analysis of the long-term impact of this deposit into the Pension Fund. Currently, the City is under no obligation to sell PGW.

**B. COMPONENT UNITS**

1) On July 2, 2013 the **SDP** issued Tax and Revenue Anticipation Notes, the Series A of 2013-2014 in the principal amount of $125 million ("Series A Notes"). The Commonwealth of Pennsylvania provided the School District with $400 million of basic education subsidy advances. Both the Series A Notes and the advances were for cash flow purposes.

2) On September 23, 2013 the **SDP** authorized the extension and amendment of two letters of Credit agreements and authorized two new Letters of Credit agreements effective October 31, 2013 through January 3, 2017. The LOC providers are, Barclays Bank for the Series F2010 Bonds, PNC Bank for the Series G 2010 Bonds, RBC Bank for the series H 2010 Bonds and TD Securities for the Series C 2009 Bonds. These LOCs cover $349 million of existing variable rate demand bonds.

3) In October 2013, an Ordinance was introduced in City Council which authorizes the City to sell **PGW** Revenue Capital Project Commercial Paper Notes in an aggregate principal amount of up to $120.0 million at any one time outstanding to pay the costs related to any or all of the purposes set forth in the Ordinance. This includes providing funds for any or all of the following purposes: (a) the capital projects included in the capital program of **PGW**, which may include, without limitation, (i) the acquisition of land or rights therein; (ii) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery and apparatus; (iii) the acquisition, construction or replacement of pipes and pipe lines; and (iv) the acquisition or replacement of property of a capital nature for use in the operation, maintenance and administration of the Gas Works system of the City; (b) the provision of interest on the Notes during construction of the capital projects; (c) paying the costs of issuing the Notes; and (d) paying any other Project Costs (as defined in the First Class Revenue Bond Act of October 18, 1972, Act No. 234). The Ordinance was passed by City Council on November 21, 2013 and was signed by the Mayor on December 4, 2013. This Ordinance does not expire.

4) In September 2013, **PMA** adopted a resolution to proceed with the project of refunding the 2003 Series Bonds with the issuance of its City Agreement Revenue Refunding Bonds, 2013 Series A, in the aggregate principal amount not to exceed $100 million. In April 2013, the City Council of the City of Philadelphia, by Ordinance approved by the mayor authorized the refunding project to refund all or a portion of the Lease Revenue Refunding Bonds, 2003 Series A and B of which $106 million was outstanding as of June 30, 2013.

# City of Philadelphia

P E N N S Y L V A N I A

# Required Supplementary Information

**(Other than Management's Discussion and Analysis)**

**City of Philadelphia** **Exhibit XIV**

**Required Supplementary Information**
**Budgetary Comparison Schedule**
**General Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual* | |
| **Revenues** | | | | |
| Tax Revenue | 2,614,398 | 2,712,511 | 2,733,457 | 20,946 |
| Locally Generated Non-Tax Revenue | 246,253 | 258,606 | 266,173 | 7,567 |
| Revenue from Other Governments | 653,817 | 650,864 | 651,539 | 675 |
| Revenue from Other Funds | 53,253 | 58,583 | 46,821 | (11,762) |
| Total Revenues | 3,567,721 | 3,680,564 | 3,697,990 | 17,426 |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 1,341,313 | 1,373,989 | 1,362,360 | 11,629 |
| Pension Contributions | 629,106 | 620,806 | 618,874 | 1,932 |
| Other Employee Benefits | 489,151 | 504,078 | 500,200 | 3,878 |
| Sub-Total Employee Compensation | 2,459,570 | 2,498,873 | 2,481,434 | 17,439 |
| Purchase of Services | 768,574 | 799,068 | 757,803 | 41,265 |
| Materials and Supplies | 63,219 | 69,222 | 68,090 | 1,132 |
| Equipment | 16,071 | 19,112 | 17,326 | 1,786 |
| Contributions, Indemnities and Taxes | 137,862 | 138,414 | 138,273 | 141 |
| Debt Service | 127,433 | 118,874 | 118,874 | - |
| Payments to Other Funds | 31,138 | 31,598 | 31,466 | 132 |
| Total Expenditures and Encumbrances | 3,603,867 | 3,675,161 | 3,613,266 | 61,895 |
| Operating Surplus (Deficit) for the Year | (36,146) | 5,403 | 84,724 | 79,321 |
| Fund Balance Available for Appropriation, July 1, 2012 | 98,970 | 146,754 | 146,754 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 24,500 | 24,500 | 25,441 | 941 |
| Revenue Adjustments - Net | - | (6,225) | (13) | 6,212 |
| Prior Period Adjustments | - | - | (4) | (4) |
| Funding for Future Obligations | - | (11,633) | - | 11,633 |
| Other Adjustments | (6,000) | (550) | - | 550 |
| Adjusted Fund Balance, July 1, 2012 | 117,470 | 152,846 | 172,178 | 19,332 |
| Fund Balance Available for Appropriation, June 30, 2013 | 81,324 | 158,249 | 256,902 | 98,653 |

* Refer to the notes to required supplementary information.

**City of Philadelphia**
**Required Supplementary Information**
**Budgetary Comparison Schedule**
**HealthChoices Behavioral Health Fund**
**For the Fiscal Year Ended June 30, 2013**

**Exhibit XV**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual* | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 2,500 | 1,500 | 630 | (870) |
| Revenue from Other Governments | 840,143 | 815,995 | 812,979 | (3,016) |
| Total Revenues | 842,643 | 817,495 | 813,609 | (3,886) |
| **Other Sources** | | | | |
| Increase in Unreimbursed Committments | - | - | 2,477 | 2,477 |
| Increase in Financed Reserves | - | - | (20,727) | (20,727) |
| Total Revenues and Other Sources | 842,643 | 817,495 | 795,359 | (22,136) |
| **Expenditures and Encumbrances** | | | | |
| Purchase of Services | 899,317 | 898,512 | 814,451 | 84,061 |
| Equipment | 100 | 100 | - | 100 |
| Payments to Other Funds | 1,226 | 2,031 | 1,679 | 352 |
| Total Expenditures and Encumbrances | 900,643 | 900,643 | 816,130 | 84,513 |
| Operating Surplus (Deficit) for the Year | (58,000) | (83,148) | (20,771) | 62,377 |
| Fund Balance Available for Appropriation, July 1, 2012 | - | 25,164 | 25,164 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 3,087 | 3,087 |
| Other Adjustments | 58,000 | (1,333) | - | 1,333 |
| Adjusted Fund Balance, July 1, 2012 | 58,000 | 23,831 | 28,251 | 4,420 |
| Fund Balance Available for Appropriation, June 30, 2013 | - | (59,317) | 7,480 | 66,797 |

* Refer to the notes to required supplementary information.

**City of Philadelphia** **Exhibit XVI**

**Required Supplementary Information**
**Budgetary Comparison Schedule**
**Grants Revenue Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual* | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 76,955 | 79,745 | 46,317 | (33,428) |
| Revenue from Other Governments | 1,351,315 | 1,187,637 | 875,991 | (311,646) |
| Total Revenues | 1,428,270 | 1,267,382 | 922,308 | (345,074) |
| **Other Sources** | | | | |
| Decrease in Unreimbursed Committments | - | - | (12,708) | (12,708) |
| Decrease in Financed Reserves | - | - | 22,437 | 22,437 |
| Total Revenues and Other Sources | 1,428,270 | 1,267,382 | 932,037 | (335,345) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 178,960 | 179,499 | 139,436 | 40,063 |
| Pension Contributions | 31,441 | 48,563 | 27,569 | 20,994 |
| Other Employee Benefits | 40,279 | 42,910 | 29,059 | 13,851 |
| Sub-Total Employee Compensation | 250,680 | 270,972 | 196,064 | 74,908 |
| Purchase of Services | 998,413 | 975,684 | 768,477 | 207,207 |
| Materials and Supplies | 39,329 | 20,608 | 13,567 | 7,041 |
| Equipment | - | 19,207 | 7,313 | 11,894 |
| Contributions, Indemnities and Taxes | - | 467 | 467 | - |
| Payments to Other Funds | 39,848 | 45,047 | 46,644 | (1,597) |
| Advances, Subsidies, Miscellaneous | 100,000 | 21,197 | - | 21,197 |
| Total Expenditures and Encumbrances | 1,428,270 | 1,353,182 | 1,032,532 | 320,650 |
| Operating Surplus (Deficit) for the Year | - | (85,800) | (100,496) | (14,695) |
| Fund Balance Available for Appropriation, July 1, 2012 | - | (175,082) | (175,082) | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 58,483 | 58,483 |
| Revenue Adjustments - Net | - | - | (44) | (44) |
| Prior Period Adjustments | - | 175,082 | - | (175,082) |
| Adjusted Fund Balance, July 1, 2012 | - | - | (116,643) | (116,643) |
| Fund Balance Available for Appropriation, June 30, 2013 | - | (85,800) | (217,139) | (131,338) |

* Refer to the notes to required supplementary information.

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percent of Covered Payroll (b - a) / c |
|---|---|---|---|---|---|---|
| **City of Philadelphia Municipal Pension Plan** | | | | | | |
| 07/01/2007 | 4,421.7 | 8,197.2 | 3,775.5 | 53.94% | 1,351.8 | 279.29% |
| 07/01/2008 | 4,623.6 | 8,402.2 | 3,778.6 | 55.03% | 1,456.5 | 259.43% |
| 07/01/2009 | 4,042.1 | 8,975.0 | 4,932.9 | 45.04% | 1,463.3 | 337.11% |
| 07/01/2010 | 4,230.9 | 9,317.0 | 5,086.1 | 45.41% | 1,421.2 | 357.87% |
| 07/01/2011 | 4,489.1 | 9,487.5 | 4,998.4 | 47.32% | 1,371.3 | 364.50% |
| 07/01/2012 | 4,486.8 | 9,799.9 | 5,313.1 | 45.78% | 1,372.2 | 387.20% |
| **City of Philadelphia Other Post Employment Benefits** | | | | | | |
| 07/01/2007 | - | 1,136.7 | 1,136.7 | 0.00% | 1,351.8 | 84.09% |
| 07/01/2008 | - | 1,156.0 | 1,156.0 | 0.00% | 1,456.5 | 79.37% |
| 07/01/2009 | - | 1,119.6 | 1,119.6 | 0.00% | 1,461.7 | 76.60% |
| 07/01/2010 | - | 1,169.5 | 1,169.5 | 0.00% | 1,419.5 | 82.39% |
| 07/01/2011 | - | 1,212.5 | 1,212.5 | 0.00% | 1,469.2 | 82.53% |
| 07/01/2012 | - | 1,511.9 | 1,511.9 | 0.00% | 1,371.6 | 110.23% |
| **Philadelphia Gas Works Pension Plan** | | | | | | |
| 09/01/2007 | 416.2 | 482.4 | 66.2 | 86.28% | 105.6 | 62.69% |
| 09/01/2008 | 430.4 | 495.2 | 64.8 | 86.92% | 107.9 | 60.01% |
| 09/01/2009 | 355.5 | 519.8 | 164.3 | 68.39% | 106.0 | 155.00% |
| 09/01/2010 | 382.0 | 533.7 | 151.7 | 71.58% | 106.1 | 142.98% |
| 09/01/2011 | 421.9 | 572.2 | 150.2 | 73.73% | 106.3 | 141.30% |
| 09/01/2012 | 437.8 | 585.6 | 147.9 | 74.76% | 106.0 | 139.53% |

## I. BASIS OF BUDGETING

The budgetary comparison schedules presented differ from the GAAP basis statements in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures. In accordance with the Philadelphia Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The major funds presented as Required Supplementary Information are subject to annual operating budgets adopted by City Council. These budgets appropriate funds by major class of expenditure within each department. Major classes are defined as: personal services; purchase of services; materials and supplies & equipment; contributions, indemnities & taxes; debt service; payments to other funds; and advances & other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes must have council approval.

Appropriations that are not expended or encumbered at year end are lapsed. Comparisons of budget to actual activity at the legal level of compliance are reported in the City's "Supplemental Report of Revenues & Obligations", a separately published report.

During the year, classification adjustments and supplementary appropriations were necessary for City funds. Therefore, budgeted appropriation amounts presented are as originally passed and as amended by the City Council. As part of the amendment process, budget estimates of City related revenues are adjusted and submitted to City Council for review. Changes in revenue estimates do not need City Council approval, but are submitted in support of testimony with regard to the appropriation adjustments. Revenue estimates are presented as originally passed and as amended.

## II. BASIS OF BUDGETING TO GAAP BASIS RECONCILIATION

| | General Fund | HealthChoices Behavioral Health Fund | Grants Revenue Fund |
|---|---|---|---|
| **Revenues** | | | |
| Budgetary Comparison Schedule | 3,697,990 | 813,610 | 922,308 |
| Transfers | (343,174) | - | - |
| Program Income | - | - | 73,760 |
| Change in Amount Held by Fiscal Agent | 1,739 | - | - |
| Change in BPT Adjustment | (9,070) | - | - |
| Other | - | - | 11,208 |
| Statement of Revenues, Expenditures & Changes in Fund Balance | 3,347,485 | 813,610 | 1,007,276 |
| **Expenditures and Encumbrances** | | | |
| Budgetary Comparison Schedule | 3,613,266 | 816,131 | 1,032,532 |
| Transfers | (169,424) | - | (33,799) |
| Bond Issuance Costs | 4,356 | - | - |
| Expenditures applicable to Prior Years Budgets | 30,872 | (3,627) | 24,085 |
| Program Income | - | - | 73,760 |
| Other | - | - | 11,573 |
| Change in Amount Held by Fiscal Agent | 6,922 | - | - |
| Current Year Encumbrances | (72,725) | (1,937) | (69,861) |
| Statement of Revenues, Expenditures & Changes in Fund Balance | 3,413,267 | 810,567 | 1,038,290 |

# City of Philadelphia
PENNSYLVANIA

# Other Supplementary Information

# NON-MAJOR GOVERNMENTAL FUNDS

## SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

**COUNTY LIQUID FUELS TAX** - Established to account for funds made available by Public Law No. 149.

**SPECIAL GASOLINE TAX** - Established to account for funds made available by Public Law No. 588.

**HOTEL ROOM RENTAL TAX** - Established to account for the tax levied to promote tourism.

**COMMUNITY DEVELOPMENT** - Established to account for revenues received from the Department of Housing and Urban Development, restricted to accomplishing the objectives of the CDBG Program, within specific target areas.

**CAR RENTAL TAX** - Established to account for the tax levied to retire new municipal stadium debt.

**HOUSING TRUST** - Established to account for the funds to be used under Chapter 1600 of Title 21 of the Philadelphia Code to assist low income homeowners.

**ACUTE CARE HOSPITAL ASSESSMENT** - Established in FY 2009 to account for the assessment of certain net operating revenues of certain acute care hospitals.

**RIVERVIEW RESIDENTS** - Established to maintain a commissary and provide other benefits for the residents.

**PHILADELPHIA PRISONS** - Established to operate a workshop and to provide benefits for the prison inmates.

**ARBITRATION APPEALS** - Established to account for certain court fees and provide funds for the arbitration board.

**DEPARTMENTAL** - Established to account for various activities of the Free Library and Parks and Recreation.

**MUNICIPAL AUTHORITY ADMINISTRATIVE** - Established to account for all financial transactions of the Municipal Authority not accounted for in other funds.

**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY ADMINISTRATIVE** - Established to account for PICA revenues from taxes and deficit financing transactions.

# NON-MAJOR GOVERNMENTAL FUNDS (Cont'd)

## DEBT SERVICE FUNDS

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**CITY** - Established to account for the debt service activities of the City not reflected in proprietary funds operations.

**MUNICIPAL AUTHORITY** - Established to account for the debt service activities related to the equipment and facilities financed through the Philadelphia Municipal Authority.

**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY DEBT SERVICE** - Established to account for the debt service activities related to the deficit financing provided by PICA.

## CAPITAL IMPROVEMENT FUNDS

Capital Improvement Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets .

**CITY** - Established to account for capital additions and improvements to the City's facilities and infrastructure and financed through general obligation bond issues and grants from federal, state and local agencies.

**MUNICIPAL AUTHORITY** - Established to account for the acquisition of vehicles and the construction of major facilities for the city.

## PERMANENT FUNDS

Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

**LIBRARIES & PARKS** - Established to account for trust of the Free Library and Parks and Recreation.

**City of Philadelphia**
**Combining Balance Sheet**
**Non-Major Governmental Funds**
**June 30, 2013**

**Schedule I**

*Amounts in thousands of USD*

| | Special Revenue | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | County Liquid Fuels Tax | Special Gasoline Tax | Hotel Room Rental Tax | Community Development | Car Rental Tax | Housing Trust | Acute Care Hospital Assessment | Riverview Residents | Philadelphia Prisons | Arbitration Appeals | Departmental | Municipal Authority Administrative | PICA Administrative | Total |
| **Assets** | | | | | | | | | | | | | | |
| Cash on Deposit and on Hand | - | - | - | - | - | - | - | - | - | - | 5,639 | 313 | 20,621 | 26,573 |
| Equity in Treasurer's Account | 3,281 | 22,699 | 7,845 | - | 6,293 | 15,582 | 27,706 | 34 | 5,059 | - | 1,665 | - | - | 90,164 |
| Investments | - | - | - | - | - | - | - | - | - | - | 1,283 | 100 | 13,398 | 14,781 |
| Due from Other Funds | - | - | - | - | - | - | - | - | - | - | 17 | - | - | 17 |
| Taxes Receivable | - | - | 5,961 | - | 548 | - | 1,163 | - | - | - | - | - | 4,977 | 12,649 |
| Accounts Receivable | - | - | - | 2,793 | - | - | - | - | - | - | - | 3,623 | - | 6,416 |
| Due from Other Governmental Units | - | - | - | 4,420 | - | - | - | - | - | - | - | - | - | 4,420 |
| Allowance for Doubtful Accounts | - | - | (600) | - | (15) | - | (1,046) | - | - | - | - | - | - | (1,661) |
| Interest and Dividends Receivable | - | - | - | - | 1 | - | - | - | - | - | - | | 1 | 2 |
| Other Assets | - | - | - | - | - | - | - | - | - | - | 119 | - | 22 | 141 |
| Total Assets | 3,281 | 22,699 | 13,206 | 7,213 | 6,827 | 15,582 | 27,823 | 34 | 5,059 | - | 8,723 | 4,036 | 39,019 | 153,502 |
| **Liabilities** | | | | | | | | | | | | | | |
| Vouchers Payable | 205 | 597 | - | 495 | - | 28 | 1 | - | 147 | - | 193 | - | - | 1,666 |
| Accounts Payable | 488 | 786 | 5,912 | 3,683 | - | 494 | 1,174 | - | 64 | - | 530 | 3,731 | 112 | 16,974 |
| Salaries and Wages Payable | - | - | - | 115 | - | - | 65 | - | - | - | - | - | 49 | 229 |
| Due to Other Funds | - | - | - | 5,732 | - | - | - | - | - | - | 17 | - | 4,978 | 10,727 |
| Due to Component Units | - | - | - | 150 | - | 18 | - | - | - | - | - | - | - | 168 |
| Funds Held in Escrow | - | - | - | - | - | - | - | - | 447 | - | 820 | - | - | 1,267 |
| Due to Other Governmental Units | - | - | - | - | - | - | 11,271 | - | - | - | - | - | - | 11,271 |
| Unearned Revenue | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Liabilities | 693 | 1,383 | 5,912 | 10,175 | - | 540 | 12,511 | - | 658 | - | 1,560 | 3,731 | 5,139 | 42,302 |
| **Deferred Inflows of Resources** | - | - | 144 | 4,229 | 5 | - | 116 | - | - | - | - | - | - | 4,494 |
| **Fund Balances** | | | | | | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | - | - | - | 200 | - | - | 200 |
| Restricted | 2,588 | 21,316 | 7,150 | - | 6,822 | 15,042 | 15,196 | - | - | - | 6,290 | 305 | 33,880 | 108,589 |
| Committed | - | - | - | - | - | - | - | 34 | 4,401 | - | 673 | - | - | 5,108 |
| Unassigned | - | - | - | (7,191) | - | - | - | - | - | - | - | - | - | (7,191) |
| Total Fund Balances | 2,588 | 21,316 | 7,150 | (7,191) | 6,822 | 15,042 | 15,196 | 34 | 4,401 | - | 7,163 | 305 | 33,880 | 106,706 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | 3,281 | 22,699 | 13,206 | 7,213 | 6,827 | 15,582 | 27,823 | 34 | 5,059 | - | 8,723 | 4,036 | 39,019 | 153,502 |

**City of Philadelphia**
**Combining Balance Sheet**
**Non-Major Governmental Funds(Continued)**
**June 30, 2013**

**Schedule I**

*Amounts in thousands of USD*

| | Debt Service | | | | Capital Improvement | | | Permanent | Total |
|---|---|---|---|---|---|---|---|---|---|
| | City | Municipal Authority | PICA | Total | City | Municipal Authority | Total | Libraries & Parks | Non-Major Governmental Funds |
| **Assets** | | | | | | | | | |
| Cash on Deposit and on Hand | - | - | 31,526 | 31,526 | - | - | - | 255 | 58,354 |
| Equity in Treasurer's Account | 1,180 | - | - | 1,180 | 32,033 | - | 32,033 | - | 123,377 |
| Investments | - | 11 | 48,451 | 48,462 | - | 17,518 | 17,518 | 5,487 | 86,248 |
| Due from Other Funds | - | - | - | - | - | - | - | - | 17 |
| Taxes Receivable | - | - | - | - | - | - | - | - | 12,649 |
| Accounts Receivable | - | - | - | - | - | - | - | - | 6,416 |
| Due from Other Governmental Units | - | - | - | - | 37,339 | - | 37,339 | - | 41,759 |
| Allowance for Doubtful Accounts | - | - | - | - | - | - | - | - | (1,661) |
| Interest and Dividends Receivable | - | - | 1 | 1 | 26 | 52 | 78 | - | 81 |
| Other Assets | - | - | - | - | - | - | - | 1 | 142 |
| Total Assets | 1,180 | 11 | 79,978 | 81,169 | 69,398 | 17,570 | 86,968 | 5,743 | 327,382 |
| **Liabilities** | | | | | | | | | |
| Vouchers Payable | - | - | - | - | 5,636 | - | 5,636 | - | 7,302 |
| Accounts Payable | - | - | - | - | 13,466 | 2,208 | 15,674 | 1 | 32,649 |
| Salaries and Wages Payable | - | - | - | - | 90 | - | 90 | - | 319 |
| Due to Other Funds | - | - | - | - | - | - | - | - | 10,727 |
| Due to Component Units | - | - | - | - | - | - | - | - | 168 |
| Funds Held in Escrow | - | - | - | - | 1,904 | - | 1,904 | - | 3,171 |
| Due to Other Governmental Units | - | - | - | - | - | - | - | - | 11,271 |
| Unearned Revenue | - | - | - | - | 2,167 | - | 2,167 | - | 2,167 |
| Total Liabilities | - | - | - | - | 23,263 | 2,208 | 25,471 | 1 | 67,774 |
| **Deferred Inflows of Resources** | - | - | - | - | 32,267 | - | 32,267 | - | 36,761 |
| **Fund Balances** | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | 2,633 | 2,833 |
| Restricted | 1,180 | 11 | 79,978 | 81,169 | 13,868 | 15,362 | 29,230 | 3,109 | 222,097 |
| Committed | - | - | - | - | - | - | - | - | 5,108 |
| Unassigned | - | - | - | - | - | - | - | - | (7,191) |
| Total Fund Balances | 1,180 | 11 | 79,978 | 81,169 | 13,868 | 15,362 | 29,230 | 5,742 | 222,847 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | 1,180 | 11 | 79,978 | 81,169 | 69,398 | 17,570 | 86,968 | 5,743 | 327,382 |

**City of Philadelphia**
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**
**Non-Major Governmental Funds**
**For the Fiscal Year Ended June 30, 2013**

**Schedule II**

*Amounts in thousands of USD*

| | Special Revenue | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | County Liquid Fuels Tax | Special Gasoline Tax | Hotel Room Rental Tax | Community Development | Car Rental Tax | Housing Trust | Acute Care Hospital Assessment | Riverview Residents | Philadelphia Prisons | Arbitration Appeals | Departmental | Municipal Authority Administrative | PICA Administrative | Total |
| **Revenues** | | | | | | | | | | | | | | |
| Tax Revenue | - | - | 50,042 | - | 5,383 | - | 148,309 | - | - | - | - | - | 376,379 | 580,113 |
| Locally Generated Non-Tax Revenue | - | 1 | - | 7,856 | 3 | 12,749 | - | - | 2,934 | 353 | 4,596 | 1,213 | 193 | 29,898 |
| Revenue from Other Governments | 4,728 | 24,189 | - | 33,078 | - | - | - | - | - | - | - | - | - | 61,995 |
| Other Revenues | - | - | - | - | - | - | - | - | - | - | 539 | | 3,903 | 4,442 |
| Total Revenues | 4,728 | 24,190 | 50,042 | 40,934 | 5,386 | 12,749 | 148,309 | - | 2,934 | 353 | 5,135 | 1,213 | 380,475 | 676,448 |
| **Expenditures** | | | | | | | | | | | | | | |
| Current Operating: | | | | | | | | | | | | | | |
| Economic Development | - | - | 53,193 | - | - | - | - | - | - | - | - | - | - | 53,193 |
| Transportation: | | | | | | | | | | | | | | |
| Streets & Highways | 4,719 | 23,461 | - | - | - | - | - | - | - | - | - | - | - | 28,180 |
| Judiciary and Law Enforcement: | | | | | | | | | | | | | | |
| Prisons | - | - | - | - | - | - | - | - | 1,746 | - | - | - | - | 1,746 |
| Conservation of Health: | | | | | | | | | | | | | | |
| Health Services | - | - | - | - | - | - | 139,584 | - | - | - | - | - | - | 139,584 |
| Housing and Neighborhood Development | - | - | - | 41,640 | - | 8,236 | - | - | - | - | - | - | - | 49,876 |
| Cultural and Recreational: | | | | | | | | | | | | | | |
| Parks & Recreation | - | - | - | - | - | - | - | - | - | - | 3,781 | - | - | 3,781 |
| Libraries and Museums | - | - | - | - | - | - | - | - | - | - | 278 | - | - | 278 |
| General Management and Support | - | - | - | - | 5,000 | - | - | - | 987 | 353 | 1,862 | 35,082 | 1,284 | 44,568 |
| Capital Outlay | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt Service: | | | | | | | | | | | | | | |
| Principal | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Expenditures | 4,719 | 23,461 | 53,193 | 41,640 | 5,000 | 8,236 | 139,584 | - | 2,733 | 353 | 5,921 | 35,082 | 1,284 | 321,206 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 9 | 729 | (3,151) | (706) | 386 | 4,513 | 8,725 | - | 201 | - | (786) | (33,869) | 379,191 | 355,242 |
| **Other Financing Sources (Uses)** | | | | | | | | | | | | | | |
| Bond Issuance Premium | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfers In | - | - | - | - | - | - | - | - | - | - | 1,150 | 33,868 | | 35,018 |
| Transfers Out | - | - | - | - | - | - | (3,000) | - | - | - | - | - | (385,547) | (388,547) |
| Total Other Financing Sources (Uses) | - | - | - | - | - | - | (3,000) | - | - | - | 1,150 | 33,868 | (385,547) | (353,529) |
| Net Change in Fund Balances | 9 | 729 | (3,151) | (706) | 386 | 4,513 | 5,725 | - | 201 | - | 364 | (1) | (6,356) | 1,713 |
| Fund Balance - July 1, 2012 | 2,579 | 20,587 | 10,301 | (6,485) | 6,436 | 10,529 | 9,471 | 34 | 4,200 | - | 6,799 | 306 | 40,236 | 104,993 |
| Fund Balance - June 30, 2013 | 2,588 | 21,316 | 7,150 | (7,191) | 6,822 | 15,042 | 15,196 | 34 | 4,401 | - | 7,163 | 305 | 33,880 | 106,706 |

**City of Philadelphia** **Schedule II**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**
**Non-Major Governmental Funds(Continued)**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Debt Service | | | | Capital Improvement | | | Permanent | Total |
|---|---|---|---|---|---|---|---|---|---|
| | City | Municipal Authority | PICA | Total | City | Municipal Authority | Total | Libraries & Parks | Non-Major Governmental Funds |
| **Revenues** | | | | | | | | | |
| Tax Revenue | - | - | - | - | - | - | - | - | 580,113 |
| Locally Generated Non-Tax Revenue | - | - | 1,210 | 1,210 | - | 80 | 80 | 373 | 31,561 |
| Revenue from Other Governments | - | - | - | - | 42,447 | - | 42,447 | - | 104,442 |
| Other Revenues | - | - | - | - | 3,956 | - | 3,956 | - | 8,398 |
| Total Revenues | - | - | 1,210 | 1,210 | 46,403 | 80 | 46,483 | 373 | 724,514 |
| **Expenditures** | | | | | | | | | |
| Current Operating: | | | | | | | | | |
| Economic Development | - | - | - | - | - | - | - | - | 53,193 |
| Transportation: | | | | | | | | | |
| Streets & Highways | - | - | - | - | - | - | - | - | 28,180 |
| Judiciary and Law Enforcement: | | | | | | | | | |
| Prisons | - | - | - | - | - | - | - | - | 1,746 |
| Conservation of Health: | | | | | | | | | |
| Health Services | - | - | - | - | - | - | - | - | 139,584 |
| Housing and Neighborhood Development | - | - | - | - | - | - | - | - | 49,876 |
| Cultural and Recreational: | | | | | | | | | |
| Parks & Recreation | - | - | - | - | - | - | - | 72 | 3,853 |
| Libraries and Museums | - | - | - | - | - | - | - | - | 278 |
| General Management and Support | - | | - | - | - | 83 | 83 | - | 44,651 |
| Capital Outlay | - | - | - | - | 134,148 | 26,979 | 161,127 | - | 161,127 |
| Debt Service: | | | | | | | | | |
| Principal | 48,535 | 21,855 | 43,655 | 114,045 | - | - | - | - | 114,045 |
| Interest | 68,055 | 17,827 | 22,539 | 108,421 | - | - | - | - | 108,421 |
| Total Expenditures | 116,590 | 39,682 | 66,194 | 222,466 | 134,148 | 27,062 | 161,210 | 72 | 704,954 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (116,590) | (39,682) | (64,984) | (221,256) | (87,745) | (26,982) | (114,727) | 301 | 19,560 |
| **Other Financing Sources (Uses)** | | | | | | | | | |
| Bond Issuance Premium | 821 | - | - | 821 | - | - | - | - | 821 |
| Transfers In | 115,627 | 39,682 | 63,849 | 219,158 | 15,473 | | 15,473 | - | 269,649 |
| Transfers Out | - | - | - | - | - | - | - | - | (388,547) |
| Total Other Financing Sources (Uses) | 116,448 | 39,682 | 63,849 | 219,979 | 15,473 | - | 15,473 | - | (118,077) |
| Net Change in Fund Balances | (142) | - | (1,135) | (1,277) | (72,272) | (26,982) | (99,254) | 301 | (98,517) |
| Fund Balance - July 1, 2012 | 1,322 | 11 | 81,113 | 82,446 | 86,140 | 42,344 | 128,484 | 5,441 | 321,364 |
| Fund Balance - June 30, 2013 | 1,180 | 11 | 79,978 | 81,169 | 13,868 | 15,362 | 29,230 | 5,742 | 222,847 |

**City of Philadelphia** **Schedule III**

**Combining Statement of Fiduciary Net Position**
**Pension Trust Funds**
**June 30, 2013**

*Amounts in thousands of USD*

| | Gas Works Retirement Reserve Fund | Municipal Pension Fund | Total |
|---|---|---|---|
| **Assets** | | | |
| Equity in Treasurer's Account | 469,768 | 4,438,835 | 4,908,603 |
| Securities Lending Collective Investment Pool | 7,279 | 614,267 | 621,546 |
| Due from Brokers for Securities Sold | 1,351 | 153,556 | 154,907 |
| Interest and Dividends Receivable | 1,461 | 13,300 | 14,761 |
| Due from Other Governmental Units | - | 3,133 | 3,133 |
| Due from Other Funds | - | 15,742 | 15,742 |
| Total Assets | 479,859 | 5,238,833 | 5,718,692 |
| **Liabilities** | | | |
| Vouchers Payable | - | 18 | 18 |
| Accounts Payable | 562 | 3,291 | 3,853 |
| Salaries and Wages Payable | - | 53 | 53 |
| Funds Held in Escrow | - | 9 | 9 |
| Due on Return of Securities Loaned | 7,279 | 614,742 | 622,021 |
| Due to Brokers for Securities Purchased | 13,360 | 170,782 | 184,142 |
| Accrued Expenses | 2,344 | 2,434 | 4,778 |
| Unearned Revenue | - | 1,792 | 1,792 |
| Other Liabilities | - | 488 | 488 |
| Total Liabilities | 23,545 | 793,609 | 817,154 |
| Net Position Held in Trust for Pension Benefits | 456,314 | 4,445,224 | 4,901,538 |

**City of Philadelphia** **Schedule IV**

**Combining Statement of Changes in Fiduciary Net Position**
**Pension Trust Funds**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Gas Works Retirement Reserve Fund | Municipal Pension Fund | Total |
|---|---|---|---|
| **Additions** | | | |
| Contributions: | | | |
| Employer's Contributions | 23,673 | 781,823 | 805,496 |
| Employees' Contributions | 133 | 49,614 | 49,747 |
| Total Contributions | 23,806 | 831,437 | 855,243 |
| Investment Income: | | | |
| Interest and Dividends | 11,806 | 122,893 | 134,699 |
| Net Gain in Fair Value of Investments | 44,510 | 213,874 | 258,384 |
| (Less) Investments Expenses | (1,926) | (12,226) | (14,152) |
| Securities Lending Revenue | - | 2,996 | 2,996 |
| Unrealized Gain | - | 118,126 | 118,126 |
| (Less) Securities Lending Expenses | - | (331) | (331) |
| Net Investment Gain | 54,390 | 445,332 | 499,722 |
| Miscellaneous Operating Revenues | - | 469 | 469 |
| Total Additions | 78,196 | 1,277,238 | 1,355,434 |
| **Deductions** | | | |
| Personal Services | - | 3,502 | 3,502 |
| Purchase of Services | - | 1,618 | 1,618 |
| Materials and Supplies | - | 69 | 69 |
| Employee Benefits | - | 2,941 | 2,941 |
| Pension Benefits | 41,359 | 740,746 | 782,105 |
| Refunds of Members' Contributions | - | 5,744 | 5,744 |
| Administrative Expenses Paid | 796 | - | 796 |
| Other Operating Expenses | - | 211 | 211 |
| Total Deductions | 42,155 | 754,831 | 796,986 |
| Change in Net Position | 36,041 | 522,407 | 558,448 |
| Net Position - July 1, 2012 | 420,273 | 3,922,817 | 4,343,090 |
| Net Position - June 30, 2013 | 456,314 | 4,445,224 | 4,901,538 |

**City of Philadelphia** **Schedule V**

**Combining Statement of Fiduciary Net Position**
**Agency Funds**
**June 30, 2013**

*Amounts in thousands of USD*

| | Escrow Fund | Employee Health & Welfare Fund | Departmental Custodial Accounts | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash on Deposit and on Hand | - | - | 100,861 | 100,861 |
| Equity in Treasurer's Account | 27,453 | 25,703 | - | 53,156 |
| Investments | - | - | 6,145 | 6,145 |
| Due from Other Funds | - | - | 699 | 699 |
| Total Assets | 27,453 | 25,703 | 107,705 | 160,861 |
| **Liabilities** | | | | |
| Vouchers Payable | 6 | 25 | - | 31 |
| Payroll Taxes Payable | - | 15,262 | - | 15,262 |
| Funds Held in Escrow | 27,447 | 10,416 | 107,705 | 145,568 |
| Total Liabilities | 27,453 | 25,703 | 107,705 | 160,861 |
| Net Position | - | - | - | - |

**City of Philadelphia** **Schedule VI**

**Statement of Changes in Fiduciary Net Position**
**Agency Funds**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Balance 7-1-2012 | Additions | Deductions | Balance 6-30-2013 |
|---|---|---|---|---|
| **Escrow Fund** | | | | |
| **Assets** | | | | |
| Equity in Treasurer's Account | 17,494 | 390,755 | 380,796 | 27,453 |
| **Liabilities** | | | | |
| Funds Held in Escrow | 14,452 | 390,741 | 377,746 | 27,447 |
| Vouchers Payable | 3,042 | 1,202 | 4,238 | 6 |
| Total Liabilities | 17,494 | 391,943 | 381,984 | 27,453 |
| **Employee Health and Welfare Fund** | | | | |
| **Assets** | | | | |
| Equity in Treasurer's Account | 24,741 | 886,599 | 885,637 | 25,703 |
| **Liabilities** | | | | |
| Vouchers Payable | 90 | 8,941 | 9,006 | 25 |
| Payroll Taxes Payable | 14,589 | 787,499 | 786,826 | 15,262 |
| Funds Held in Escrow | 10,062 | 84,014 | 83,660 | 10,416 |
| Total Liabilities | 24,741 | 880,454 | 879,492 | 25,703 |
| **Departmental Custodial Accounts** | | | | |
| **Assets** | | | | |
| Cash on Deposit and on Hand | 104,934 | 261,319 | 265,392 | 100,861 |
| Investments | 9,676 | - | 3,531 | 6,145 |
| Due from Other Funds | 826 | - | 127 | 699 |
| Total Assets | 115,436 | 261,319 | 269,050 | 107,705 |
| **Liabilities** | | | | |
| Funds Held in Escrow | 115,436 | 261,319 | 269,050 | 107,705 |
| **Totals - Agency Funds** | | | | |
| **Assets** | | | | |
| Cash on Deposit and on Hand | 104,934 | 261,319 | 265,392 | 100,861 |
| Equity in Treasurer's Account | 42,235 | 1,277,354 | 1,266,433 | 53,156 |
| Investments | 9,676 | - | 3,531 | 6,145 |
| Due from Other Funds | 826 | - | 127 | 699 |
| Total Assets | 157,671 | 1,538,673 | 1,535,483 | 160,861 |
| **Liabilities** | | | | |
| Vouchers Payable | 3,132 | 10,143 | 13,244 | 31 |
| Payroll Taxes Payable | 14,589 | 787,499 | 786,826 | 15,262 |
| Funds Held in Escrow | 139,950 | 736,074 | 730,456 | 145,568 |
| Total Liabilities | 157,671 | 1,533,716 | 1,530,526 | 160,861 |

**City of Philadelphia** **Schedule VII**

**City Related Schedule of Bonded Debt Outstanding**

**June 30, 2013**

*Amounts in USD*

| | Original Authorization | Date of Issuance | Issued | Fiscal 2013 Outstanding | Maturities | Interest Rates | FY 2014 Debt Service Requirements Interest | Principal |
|---|---|---|---|---|---|---|---|---|
| **General Obligation Bonds:** | | | | | | | | |
| Term Bonds | 97,493,541 | 07/27/2006 | 531,988 | 531,988 | 8/2030 to 8/2031 | 5.00 | 26,599 | - |
| | 7,222,518 | 07/27/2006 | 7,222,518 | 7,222,518 | 8/2030 to 8/2031 | 5.00 | 361,126 | - |
| | 11,024,437 | 07/27/2006 | 11,024,437 | 11,024,437 | 8/2030 to 8/2031 | 5.00 | 551,222 | - |
| | 10,131,057 | 07/27/2006 | 10,131,057 | 10,131,057 | 8/2030 to 8/2031 | 5.00 | 506,553 | - |
| | 113,608,890 | 01/06/2009 | 113,608,890 | 113,608,890 | 7/2013 to 7/2038 | 5.25 to 7.125 | 7,859,694 | 239,739 |
| | 30,926,110 | 01/06/2009 | 30,926,110 | 30,926,110 | 7/2013 to 7/2038 | 5.25 to 7.125 | 2,139,531 | 65,261 |
| | 13,834,573 | 04/19/2011 | 13,834,573 | 13,834,573 | 8/2027 to 8/2041 | 5.875 to 6.50 | 856,361 | - |
| | 37,647,372 | 04/19/2011 | 37,647,372 | 37,647,372 | 8/2027 to 8/2041 | 5.875 to 6.50 | 2,330,377 | - |
| | 45,818,055 | 04/19/2011 | 45,818,055 | 45,818,055 | 8/2027 to 8/2041 | 5.875 to 6.50 | 2,836,143 | - |
| Total Term Bonds | 367,706,553 | | 270,745,000 | 270,745,000 | | | 17,467,606 | 305,000 |
| Refunding Issues | 188,910,000 | 12/20/2007 | 188,910,000 | 159,520,000 | 8/2013 to 8/2019 | 5.00 to 5.25 | 7,573,212 | 21,075,000 |
| | 195,170,000 | 05/01/2008 | 195,170,000 | 192,885,000 | 12/2013 to 12/2032 | 4.00 to 5.25 | 10,011,138 | 470,000 |
| | 237,025,000 | 08/13/2009 | 237,025,000 | 237,025,000 | 8/2019 to 8/2031 | 4.25 to 5.50 | 12,030,260 | - |
| | 100,000,000 | 08/13/2009 | 100,000,000 | 100,000,000 | 8/2027 to 8/2031 | variable rates | 3,829,000 | - |
| | 114,570,000 | 04/19/2011 | 114,570,000 | 79,410,000 | 8/2013 to 8/2020 | 2.00 to 5.25 | 3,485,023 | 11,850,000 |
| | 21,295,000 | 05/08/2012 | 21,295,000 | 21,295,000 | 9/2014 to 9/2021 | 5.00 | 1,064,750 | - |
| Total Refunding Bonds | 856,970,000 | | 856,970,000 | 790,135,000 | | | 37,993,383 | 33,395,000 |
| Serial Bonds | 99,400,449 [1] | 07/27/2006 | 3,472,002 | 2,907,166 | 8/2013 to 8/2029 | 4.75 to 5.125 | 141,551 | 111,329 |
| | 12,165,000 | 12/02/2003 | 12,165,000 | 1,661,739 | 2/2014 | 5.25 | 87,241 | 1,661,739 |
| | 84,972,482 | 12/02/2003 | 37,835,000 | 5,168,261 | 2/2014 | 5.25 | 271,334 | 5,168,261 |
| | [1] | 07/27/2006 | 47,137,482 | 39,469,022 | 8/2013 to 8/2029 | 4.75 to 5.125 | 1,921,754 | 1,511,457 |
| | 71,950,563 [1] | 07/27/2006 | 71,950,563 | 60,245,441 | 8/2013 to 8/2029 | 4.75 to 5.125 | 2,933,362 | 2,307,086 |
| | 66,119,953 [1] | 07/27/2006 | 66,119,953 | 55,363,371 | 8/2013 to 8/2029 | 4.75 to 5.125 | 2,695,653 | 2,120,128 |
| | 16,086,110 [1] | 01/06/2009 | 16,086,110 | 9,404,852 | 7/2013 to 7/2018 | 4.75 to 6.00 | 480,348 | 1,678,175 |
| | 4,378,890 [1] | 01/06/2009 | 4,378,890 | 2,560,148 | 7/2013 to 7/2018 | 4.75 to 6.00 | 130,758 | 456,825 |
| | 5,950,427 [1] | 04/19/2011 | 5,950,427 | 5,674,589 | 8/2013 to 8/2026 | 4.00 to 5.375 | 281,375 | 287,213 |
| | 16,192,628 [1] | 04/19/2011 | 16,192,628 | 15,442,002 | 8/2013 to 8/2026 | 4.00 to 5.375 | 765,694 | 781,580 |
| | 19,706,945 [1] | 04/19/2011 | 19,706,945 | 18,793,409 | 8/2013 to 8/2026 | 4.00 to 5.375 | 931,874 | 951,207 |
| Total Serial Bonds | 396,923,447 | | 300,995,000 | 216,690,000 | | | 10,640,944 | 17,035,000 |
| Total General Obligation Bonds | 1,621,600,000 | | 1,428,710,000 | 1,277,570,000 | | | 66,101,933 | 50,735,000 |
| **Revenue Bonds:** | | | | | | | | |
| Water and Sewer Revenue Bonds: | | | | | | | | |
| Series 1995 | 221,630,000 | 04/15/1995 | - | - | 8/2012 | 6.25 | - | - |
| Series 1997 B | 100,000,000 [2] | 11/25/1997 | 100,000,000 | 67,000,000 | 8/2013 to 8/2027 | variable rates | 32,062 | 3,200,000 |
| Series 1998 | 135,185,000 | 12/25/1998 | 135,185,000 | 74,100,000 | 12/2013 to 12/2014 | 5.25 | 2,943,281 | 36,075,000 |
| Series 1999 A | 6,700,000 | N.A. | 6,700,000 | 488,418 | 7/2013 to 4/2019 | 2.73 | 12,354 | 78,311 |
| Series 2005 A | 250,000,000 | 05/04/2005 | 250,000,000 | 220,580,000 | 7/2013 to 7/2035 | 3.60 to 5.25 | 10,988,400 | 5,260,000 |
| Series 2005 B | 86,105,000 [2] | 05/04/2005 | 86,105,000 | 81,995,000 | 8/2013 to 8/2018 | variable rates | 3,378,701 | 14,820,000 |
| Series 2007 A | 191,440,000 | 05/09/2007 | 191,440,000 | 145,135,000 | 8/2013 to 8/2027 | 4.50 to 5.00 | 6,754,325 | 8,125,000 |
| Series 2007 B | 153,595,000 | 05/09/2007 | 153,595,000 | 152,455,000 | 11/2013 to 11/2031 | 4.00 to 5.00 | 6,932,675 | 235,000 |
| Series 2009 A | 325,000,000 | 05/21/2009 | 140,000,000 | 140,000,000 | 1/2017 to 1/2036 | 4.00 to 5.75 | 7,294,038 | - |

**City of Philadelphia** **Schedule VII**

**City Related Schedule of Bonded Debt Outstanding**

**June 30, 2013**

*Amounts in USD*

| | Original Authorization | Date of Issuance | Issued | Fiscal 2013 Outstanding | Maturities | Interest Rates | FY 2014 Debt Service Requirements Interest | Principal |
|---|---|---|---|---|---|---|---|---|
| Series 2010C | | 08/05/2010 | 185,000,000 | 185,000,000 | 8/2016 to 8/2040 | 3.00 to 5.00 | 9,022,250 | - |
| Series 2009B | 42,886,030 | 10/14/2009 | 22,827,986 | 24,318,749 | 7/2013 to 1/2024 | 1.19 | 278,485 | 2,132,855 |
| Series 2009C | 57,268,193 | 10/14/2009 | 35,666,542 | 37,574,905 | 7/2013 to 10/2025 | 1.19 | 433,063 | 2,786,940 |
| Series 2009D | 84,759,263 | 03/31/2010 | 64,380,070 | 67,866,366 | 7/2013 to 6/2028 | 1.19 | 787,144 | 4,124,132 |
| Series 2010B | 30,000,000 | 02/16/2011 | 9,254,100 | 9,254,100 | 7/2014 to 6/2019 | 1.19 | 106,737 | 1,054,598 |
| Series 2010A | 396,460,000 | 04/15/2010 | 396,460,000 | 298,785,000 | 6/2013 to 6/2019 | 3.00 to 5.00 | 14,324,785 | 46,955,000 |
| Series 2011A | 135,000,000 | 11/16/2011 | 135,000,000 | 135,000,000 | 1/2036 to 1/2041 | 4.50 to 5.00 | 6,737,000 | - |
| Series 2011B | 49,855,000 | 11/16/2011 | 49,855,000 | 49,855,000 | 11/2016 to 11/2026 | 4.00 to 5.00 | 2,460,500 | - |
| Series 2012 | 70,370,000 | 11/01/2012 | 70,370,000 | 70,370,000 | 11/2013 to 11/2028 | 1.00 to 5.00 | 3,372,275 | 2,645,000 |
| Total Water Revenue Bonds | 2,336,253,486 | | 2,031,838,698 | 1,759,777,538 | | | 75,858,075 | 127,491,836 |
| Aviation Revenue Bonds: | | | | | | | | |
| Series 1998 B | 443,700,000 | 07/01/1998 | 443,700,000 | 5,000 | 7/2028 | 5.125 | 256 | - |
| Series 2005 C | 189,500,000 [2] | 06/02/2005 | 189,500,000 | 148,400,000 | 6/2014 to 6/2025 | variable rates | 7,398,876 | 8,200,000 |
| Series 2005 A | 124,985,000 | 08/04/2005 | 124,985,000 | 112,060,000 | 6/2014 to 6/2035 | 4.20 to 5.00 | 5,333,455 | 2,985,000 |
| Series 2007 A | 172,470,000 | 08/16/2007 | 172,470,000 | 162,520,000 | 6/2014 to 6/2037 | 5.00 | 8,126,000 | 3,650,000 |
| Series 2007 B | 82,915,000 | 08/16/2007 | 82,915,000 | 63,065,000 | 6/2014 to 6/2027 | 5.00 | 3,153,250 | 3,775,000 |
| Series 2009 A | 45,715,000 | 04/14/2009 | 45,715,000 | 40,595,000 | 6/2014 to 6/2029 | 3.25 to 5.375 | 1,941,016 | 1,805,000 |
| Series 2010A | 273,065,000 | 11/15/2010 | 273,065,000 | 273,050,000 | 6/2014 to 6/2040 | 3.00 to 5.25 | 13,599,413 | 5,070,000 |
| Series 2010B | 24,395,000 | 11/15/2010 | 24,395,000 | 10,360,000 | 6/2014 to 6/2015 | 5.00 | 518,000 | 5,055,000 |
| Series 2010C | 54,730,000 | 11/15/2010 | 54,730,000 | 40,895,000 | 6/2014 to 6/2018 | 5.00 | 2,044,750 | 7,400,000 |
| Series 2010D | 272,475,000 | 11/15/2010 | 272,475,000 | 245,585,000 | 6/2014 to 6/2028 | 4.00 to 5.25 | 12,403,850 | 13,985,000 |
| Series 2011A | 199,040,000 | 12/14/2011 | 199,040,000 | 187,200,000 | 6/2014 to 6/2028 | 4.625 to 5.00 | 9,304,406 | 6,015,000 |
| Series 2011B | 34,790,000 | 12/14/2011 | 34,790,000 | 31,720,000 | 6/2014 to 6/2031 | 2.00 to 5.00 | 1,343,019 | 1,250,000 |
| Total Aviation Revenue Bonds | 1,917,780,000 | | 1,917,780,000 | 1,315,455,000 | | | 65,166,291 | 59,190,000 |
| Total Revenue Bonds | 4,254,033,486 | | 3,949,618,698 | 3,075,232,538 | | | 141,024,366 | 186,681,836 |
| Total All Bonds | 5,875,633,486 | | 5,378,328,698 | 4,352,802,538 [3] | | | 207,126,299 | 237,416,836 |

NOTES:

[1] These General Obligation Authorizations were issued as both Term and Serial Bonds.

[2] Based on latest available estimated rates.

[3] A summary of all Bonds Outstanding is as follows:

| | General Obligation Bonds | Revenue Bonds | Total |
|---|---|---|---|
| General Fund Types: | | | |
| General Fund | 1,277,570,000 | - | 1,277,570,000 |
| Proprietary Fund Types: | | | |
| Water Fund | - | 1,759,777,538 | 1,759,777,538 |
| Aviation Fund | - | 1,315,455,000 | 1,315,455,000 |
| Total Proprietary Funds | - | 3,075,232,538 | 3,075,232,538 |
| Total All Funds | 1,277,570,000 | 3,075,232,538 | 4,352,802,538 |

**City of Philadelphia** **Schedule VIII**

**Budgetary Comparison Schedule**
**Water Operating Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 584,399 | 573,855 | 572,017 | (1,838) |
| Revenue from Other Governments | 1,500 | 2,250 | 2,727 | 477 |
| Revenue from Other Funds | 85,990 | 69,691 | 37,212 | (32,479) |
| Total Revenues | 671,889 | 645,796 | 611,956 | (33,840) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 115,699 | 115,699 | 104,392 | 11,307 |
| Pension Contributions | 56,068 | 56,068 | 55,960 | 108 |
| Other Employee Benefits | 43,130 | 43,130 | 40,369 | 2,761 |
| Sub-Total Employee Compensation | 214,897 | 214,897 | 200,721 | 14,176 |
| Purchase of Services | 156,865 | 156,865 | 134,417 | 22,448 |
| Materials and Supplies | 49,066 | 49,085 | 45,492 | 3,593 |
| Equipment | 4,869 | 4,850 | 2,802 | 2,048 |
| Contributions, Indemnities and Taxes | 6,601 | 6,601 | 5,090 | 1,511 |
| Debt Service | 201,986 | 201,986 | 201,016 | 970 |
| Payments to Other Funds | 57,605 | 57,605 | 53,566 | 4,039 |
| Total Expenditures and Encumbrances | 691,889 | 691,889 | 643,104 | 48,785 |
| Operating Surplus (Deficit) for the Year | (20,000) | (46,093) | (31,148) | 14,945 |
| Fund Balance Available for Appropriation, July 1, 2012 | - | - | - | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 20,000 | 20,000 | 31,148 | 11,148 |
| Adjusted Fund Balance, July 1, 2012 | 20,000 | 20,000 | 31,148 | 11,148 |
| Fund Balance Available for Appropriation, June 30, 2013 | - | (26,093) | - | 26,093 |

**City of Philadelphia** **Schedule IX**

**Budgetary Comparison Schedule**
**Water Residual Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | - | 828 | 9 | (819) |
| Revenue from Other Funds | 28,060 | 23,241 | 27,293 | 4,052 |
| Total Revenues | 28,060 | 24,069 | 27,302 | 3,233 |
| **Expenditures and Encumbrances** | | | | |
| Payments to Other Funds | 72,605 | 72,605 | 71,099 | 1,506 |
| Total Expenditures and Encumbrances | 72,605 | 72,605 | 71,099 | 1,506 |
| Operating Surplus (Deficit) for the Year | (44,545) | (48,536) | (43,797) | 4,739 |
| Fund Balance Available for Appropriation, July 1, 2012 | 52,813 | 44,644 | 44,644 | - |
| Fund Balance Available for Appropriation, June 30, 2013 | 8,268 | (3,892) | 847 | 4,739 |

**City of Philadelphia** **Schedule X**

**Budgetary Comparison Schedule**
**County Liquid Fuels Tax Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Revenue from Other Governments | 4,950 | 4,950 | 4,728 | (222) |
| Total Revenues | 4,950 | 4,950 | 4,728 | (222) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 3,734 | 3,734 | 3,734 | - |
| Purchase of Services | 861 | 861 | 856 | 5 |
| Materials and Supplies | 336 | 336 | 231 | 105 |
| Payments to Other Funds | 19 | 19 | 19 | - |
| Total Expenditures and Encumbrances | 4,950 | 4,950 | 4,840 | 110 |
| Operating Surplus (Deficit) for the Year | - | - | (112) | (112) |
| Fund Balance Available for Appropriation, July 1, 2012 | 2,060 | 2,352 | 2,352 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 25 | 25 | 148 | 123 |
| Adjusted Fund Balance, July 1, 2012 | 2,085 | 2,377 | 2,500 | 123 |
| Fund Balance Available for Appropriation, June 30, 2013 | 2,085 | 2,377 | 2,388 | 11 |

**City of Philadelphia** **Schedule XI**

**Budgetary Comparison Schedule**
**Special Gasoline Tax Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 20 | 3 | 1 | (2) |
| Revenue from Other Governments | 24,579 | 23,413 | 24,189 | 776 |
| Total Revenues | 24,599 | 23,416 | 24,190 | 774 |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 4,000 | 4,000 | 4,000 | - |
| Pension Contributions | 500 | 500 | 500 | - |
| Other Employee Benefits | 500 | 500 | 500 | - |
| Sub-Total Employee Compensation | 5,000 | 5,000 | 5,000 | - |
| Purchase of Services | 15,459 | 15,459 | 14,368 | 1,091 |
| Materials and Supplies | 3,990 | 3,990 | 2,988 | 1,002 |
| Equipment | - | - | 723 | (723) |
| Payments to Other Funds | 20 | 20 | 20 | - |
| Total Expenditures and Encumbrances | 24,469 | 24,469 | 23,099 | 1,370 |
| Operating Surplus (Deficit) for the Year | 130 | (1,053) | 1,091 | 2,144 |
| Fund Balance Available for Appropriation, July 1, 2012 | 16,460 | 16,507 | 16,507 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 150 | 500 | 1,809 | 1,309 |
| Adjusted Fund Balance, July 1, 2012 | 16,610 | 17,007 | 18,316 | 1,309 |
| Fund Balance Available for Appropriation, June 30, 2013 | 16,740 | 15,954 | 19,407 | 3,453 |

**City of Philadelphia** **Schedule XII**

**Budgetary Comparison Schedule**
**Hotel Room Rental Tax Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Taxes | 48,644 | 50,540 | 50,042 | (498) |
| Locally Generated Non-Tax Revenue | 2 | 2 | - | (2) |
| Total Revenues | 48,646 | 50,542 | 50,042 | (500) |
| **Expenditures and Encumbrances** | | | | |
| Contributions, Indemnities and Taxes | 48,646 | 50,542 | 50,542 | - |
| Total Expenditures and Encumbrances | 48,646 | 50,542 | 50,542 | - |
| Operating Surplus (Deficit) for the Year | - | - | (500) | (500) |
| Fund Balance Available for Appropriation, July 1, 2012 | 6,562 | 7,352 | 7,352 | - |
| Fund Balance Available for Appropriation, June 30, 2013 | 6,562 | 7,352 | 6,852 | (500) |

**City of Philadelphia** **Schedule XIII**

**Budgetary Comparison Schedule**
**Aviation Operating Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 371,050 | 321,825 | 301,099 | (20,726) |
| Revenue from Other Governments | 3,500 | 3,500 | 2,528 | (972) |
| Revenue from Other Funds | 2,500 | 2,575 | 989 | (1,586) |
| Total Revenues | 377,050 | 327,900 | 304,616 | (23,284) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 64,235 | 64,235 | 60,461 | 3,774 |
| Pension Contributions | 27,811 | 26,511 | 30,365 | (3,854) |
| Other Employee Benefits | 18,264 | 19,564 | 19,564 | - |
| Sub-Total Employee Compensation | 110,310 | 110,310 | 110,390 | (80) |
| Purchase of Services | 114,435 | 114,435 | 97,824 | 16,611 |
| Materials and Supplies | 8,757 | 9,022 | 7,899 | 1,123 |
| Equipment | 9,110 | 8,845 | 1,862 | 6,983 |
| Contributions, Indemnities and Taxes | 5,262 | 5,262 | 1,946 | 3,316 |
| Debt Service | 112,549 | 112,549 | 109,521 | 3,028 |
| Payments to Other Funds | 21,373 | 21,373 | 9,870 | 11,503 |
| Total Expenditures and Encumbrances | 381,796 | 381,796 | 339,312 | 42,484 |
| Operating Surplus (Deficit) for the Year | (4,746) | (53,896) | (34,696) | 19,200 |
| Fund Balance Available for Appropriation, July 1, 2012 | 58,060 | 64,679 | 64,679 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 10,000 | 10,000 | 16,925 | 6,925 |
| Adjusted Fund Balance, July 1, 2012 | 68,060 | 74,679 | 81,604 | 6,925 |
| Fund Balance Available for Appropriation, June 30, 2013 | 63,314 | 20,783 | 46,908 | 26,125 |

**City of Philadelphia** **Schedule XIV**

**Budgetary Comparison Schedule**
**Community Development Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 250 | 250 | 7,856 | 7,606 |
| Revenue from Other Governments | 84,877 | 64,877 | 30,460 | (34,417) |
| Total Revenues | 85,127 | 65,127 | 38,316 | (26,811) |
| **Other Sources** | | | | |
| Increase in Financed Reserves | - | - | (12,327) | (12,327) |
| Total Revenues and Other Sources | 85,127 | 65,127 | 25,989 | (39,138) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 6,544 | 6,576 | 3,999 | 2,577 |
| Pension Contributions | 2,395 | 2,609 | 1,844 | 765 |
| Other Employee Benefits | 2,186 | 1,972 | 1,147 | 825 |
| Sub-Total Employee Compensation | 11,125 | 11,157 | 6,990 | 4,167 |
| Purchase of Services | 53,625 | 53,593 | 36,495 | 17,098 |
| Materials and Supplies | 205 | 227 | 141 | 86 |
| Equipment | 142 | 120 | 33 | 87 |
| Payments to Other Funds | 30 | 30 | 20 | 10 |
| Advances, Subsidies, Miscellaneous | 20,000 | 20,000 | - | 20,000 |
| Total Expenditures and Encumbrances | 85,127 | 85,127 | 43,679 | 41,448 |
| Operating Surplus (Deficit) for the Year | - | (20,000) | (17,690) | 2,310 |
| Fund Balance Available for Appropriation, July 1, 2012 | - | (6,485) | (6,485) | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 16,984 | 16,984 |
| Prior Period Adjustments | - | 6,485 | | (6,485) |
| Adjusted Fund Balance, July 1, 2012 | - | - | 10,499 | 10,499 |
| Fund Balance Available for Appropriation, June 30, 2013 | - | (20,000) | (7,191) | 12,809 |

**City of Philadelphia** **Schedule XV**

**Budgetary Comparison Schedule**
**Car Rental Tax Fund**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Taxes | 5,330 | 5,330 | 5,383 | 53 |
| Locally Generated Non-Tax Revenue | 3 | 3 | 3 | - |
| Total Revenues | 5,333 | 5,333 | 5,386 | 53 |
| **Expenditures and Encumbrances** | | | | |
| Purchase of Services | 5,000 | 5,000 | 5,000 | - |
| Total Expenditures and Encumbrances | 5,000 | 5,000 | 5,000 | - |
| Operating Surplus (Deficit) for the Year | 333 | 333 | 386 | 53 |
| Fund Balance Available for Appropriation, July 1, 2012 | 6,466 | 6,436 | 6,436 | - |
| Fund Balance Available for Appropriation, June 30, 2013 | 6,799 | 6,769 | 6,822 | 53 |

**City of Philadelphia**
**Budgetary Comparison Schedule**
**Housing Trust Fund**
**For the Fiscal Year Ended June 30, 2013**

**Schedule XVI**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 10,610 | 12,020 | 12,749 | 729 |
| Total Revenues | 10,610 | 12,020 | 12,749 | 729 |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 700 | 700 | 700 | - |
| Purchase of Services | 14,800 | 16,800 | 13,289 | 3,511 |
| Total Expenditures and Encumbrances | 15,500 | 17,500 | 13,989 | 3,511 |
| Operating Surplus (Deficit) for the Year | (4,890) | (5,480) | (1,240) | 4,240 |
| Fund Balance Available for Appropriation, July 1, 2012 | 3,484 | 1,929 | 1,929 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 4,000 | 4,750 | 4,904 | 154 |
| Adjusted Fund Balance, July 1, 2012 | 7,484 | 6,679 | 6,833 | 154 |
| Fund Balance Available for Appropriation, June 30, 2013 | 2,594 | 1,199 | 5,593 | 4,395 |

**City of Philadelphia** **Schedule XVII**

**Budgetary Comparison Schedule**
**General Capital Improvement Funds**
**For the Fiscal Year Ended June 30, 2013**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 481,674 | 482,129 | 4,200 | (477,929) |
| Revenue from Other Governments | 347,194 | 347,429 | 48,297 | (299,132) |
| Revenue from Other Funds | - | - | 9,379 | 9,379 |
| Total Revenues | 828,868 | 829,558 | 61,876 | (767,682) |
| **Other Sources (Uses)** | | | | |
| Decrease in Unreimbursed Committments | - | - | (34,243) | (34,243) |
| Total Revenues and Other Sources | 828,868 | 829,558 | 27,633 | (801,925) |
| **Expenditures and Encumbrances** | | | | |
| Capital Outlay | 828,868 | 829,558 | 118,914 | 710,644 |
| Operating Surplus (Deficit) for the Year | - | - | (91,281) | (91,281) |
| Fund Balance Available for Appropriation, July 1, 2012 | - | - | 31,293 | 31,293 |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 804 | 804 |
| Adjusted Fund Balance, July 1, 2012 | - | - | 32,097 | 32,097 |
| Fund Balance Available for Appropriation, June 30, 2013 | - | - | (59,184) | (59,184) |

**City of Philadelphia**
**Budgetary Comparison Schedule**
**Acute Care Hospital Assessment Fund**
**For the Fiscal Year Ended June 30, 2013**

**Schedule XVIII**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Tax Revenue | 142,000 | 142,000 | 148,309 | 6,309 |
| Total Revenues | 142,000 | 142,000 | 148,309 | 6,309 |
| **Other Sources** | | | | |
| Increase in Unreimbursed Committments | - | - | 5,324 | 5,324 |
| Total Revenues and Other Sources | 142,000 | 142,000 | 153,633 | 11,633 |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 4,303 | 3,008 | 2,730 | 278 |
| Pension Contributions | 100 | 87 | 87 | - |
| Other Employee Benefits | 139 | 152 | 152 | - |
| Sub-Total Employee Compensation | 4,542 | 3,247 | 2,969 | 278 |
| Purchase of Services | 137,869 | 142,059 | 142,059 | - |
| Materials and Supplies | 3 | 6 | 5 | 1 |
| Equipment | 6 | 6 | - | 6 |
| Payments to Other Funds | 3,000 | 3,000 | 3,000 | - |
| Total Expenditures and Encumbrances | 145,420 | 148,318 | 148,033 | 285 |
| Operating Surplus (Deficit) for the Year | (3,420) | (6,318) | 5,600 | 11,918 |
| Fund Balance Available for Appropriation, July 1, 2012 | 6,623 | 9,471 | 9,471 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 125 | 125 |
| Adjusted Fund Balance, July 1, 2012 | 6,623 | 9,471 | 9,596 | 125 |
| Fund Balance Available for Appropriation, June 30, 2013 | 3,203 | 3,153 | 15,196 | 12,043 |

**City of Philadelphia** **Schedule XIX**

**Schedule of Budgetary Actual and Estimated Revenues and Obligations**

**General Fund** *Amounts in thousands of USD*

**For the Fiscal Year Ended June 30, 2013 (with comparative actual amounts for the Fiscal Year Ended June 30, 2012)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| | Original | Final | FY 2013 Actual | Positive (Negative) | FY 2012 Actual | Increase (Decrease) |
| **Revenue** | | | | | | |
| **Taxes** | | | | | | |
| Real Property Tax: | | | | | | |
| Current | 479,905 | 500,149 | 504,207 | 4,058 | 464,420 | 39,787 |
| Prior Years | 35,000 | 35,000 | 36,324 | 1,324 | 36,301 | 23 |
| Total Real Property Tax | 514,905 | 535,149 | 540,531 | 5,382 | 500,721 | 39,810 |
| Wage and Earnings Taxes: | | | | | | |
| Current | 1,197,814 | 1,227,484 | 1,219,500 | (7,984) | 1,192,221 | 27,279 |
| Prior Years | 10,000 | 4,250 | 2,006 | (2,244) | 4,102 | (2,096) |
| Total Wage and Earnings Taxes | 1,207,814 | 1,231,734 | 1,221,506 | (10,228) | 1,196,323 | 25,183 |
| Business Taxes: | | | | | | |
| Business Income & Receipts Taxes: | | | | | | |
| Current | 359,920 | 399,959 | 411,731 | 11,772 | 370,189 | 41,542 |
| Prior Years | 35,000 | 35,000 | 39,180 | 4,180 | 19,197 | 19,983 |
| Total Business Income & Receipts Taxes | 394,920 | 434,959 | 450,911 | 15,952 | 389,386 | 61,525 |
| Net Profits Tax: | | | | | | |
| Current | 9,791 | 9,972 | 17,230 | 7,258 | 12,193 | 5,037 |
| Prior Years | 2,500 | 2,500 | 1,934 | (566) | 2,928 | (994) |
| Total Net Profits Tax | 12,291 | 12,472 | 19,164 | 6,692 | 15,121 | 4,043 |
| Total Business Taxes | 407,211 | 447,431 | 470,075 | 22,644 | 404,507 | 65,568 |
| Other Taxes: | | | | | | |
| Sales Tax | 259,316 | 259,263 | 257,550 | (1,713) | 253,523 | 4,027 |
| Amusement Tax | 22,064 | 19,064 | 19,081 | 17 | 21,911 | (2,830) |
| Real Property Transfer Tax | 124,541 | 143,300 | 147,968 | 4,668 | 119,364 | 28,604 |
| Parking Lot Tax | 75,138 | 73,162 | 73,261 | 99 | 70,930 | 2,331 |
| Smokeless Tobacco | 631 | 631 | 728 | 97 | 628 | 100 |
| Miscellaneous Taxes | 2,778 | 2,777 | 2,756 | (21) | 2,538 | 218 |
| Total Other Taxes | 484,468 | 498,197 | 501,344 | 3,147 | 468,894 | 32,450 |
| Total Taxes | 2,614,398 | 2,712,511 | 2,733,456 | 20,945 | 2,570,445 | 163,011 |
| **Locally Generated Non-Tax Revenue** | | | | | | |
| Rentals from Leased City Properties | 5,290 | 5,790 | 5,933 | 143 | 5,507 | 426 |
| Licenses and Permits | 45,148 | 51,108 | 55,253 | 4,145 | 47,993 | 7,260 |
| Fines, Forfeits, Penalties, Confiscated Money and Property | 19,775 | 19,825 | 19,020 | (805) | 21,716 | (2,696) |
| Interest Income | 3,135 | 2,170 | 1,843 | (327) | 7,727 | (5,884) |
| Service Charges and Fees | 127,407 | 126,541 | 126,685 | 144 | 120,762 | 5,923 |
| Other | 45,498 | 53,172 | 57,440 | 4,268 | 52,989 | 4,451 |
| Total Locally Generated Non-Tax Revenue | 246,253 | 258,606 | 266,174 | 7,568 | 256,694 | 9,480 |
| **Revenue from Other Governments** | | | | | | |
| United States Government: | | | | | | |
| Grants and Reimbursements | 43,056 | 41,766 | 39,706 | (2,060) | 96,998 | (57,292) |
| Commonwealth of Pennsylvania: | | | | | | |
| Grants and Other Payments | 244,066 | 232,853 | 233,634 | 781 | 536,806 | (303,172) |
| Other Governmental Units | 366,695 | 376,245 | 378,199 | 1,954 | 82,069 | 296,130 |
| Total Revenue from Other Governments | 653,817 | 650,864 | 651,539 | 675 | 715,873 | (64,334) |
| **Revenue from Other Funds** | 53,253 | 58,583 | 46,821 | (11,762) | 48,341 | (1,520) |
| Total Revenues | 3,567,721 | 3,680,564 | 3,697,990 | 17,426 | 3,591,353 | 106,637 |

**City of Philadelphia** **Schedule XIX**

**Schedule of Budgetary Actual and Estimated Revenues and Obligations**

**General Fund** *Amounts in thousands of USD*

**For the Fiscal Year Ended June 30, 2013 (with comparative actual amounts for the Fiscal Year Ended June 30, 2012)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| | Original | Final | FY 2013 Actual | Positive (Negative) | FY 2012 Actual | Increase (Decrease) |
| **Obligations** | | | | | | |
| **General Government** | | | | | | |
| City Council | 35,549 | 15,672 | 13,468 | 2,204 | 13,758 | (290) |
| Mayor's Office: | | | | | | |
| Mayor's Office | 3,711 | 3,738 | 3,729 | 9 | 3,514 | 215 |
| Scholarships | 200 | 318 | 318 | - | 196 | 122 |
| Mural Arts Program | 941 | 1,149 | 947 | 202 | 996 | (49) |
| Labor Relations | 541 | 550 | 543 | 7 | 517 | 26 |
| MDO Office of Technology | 70,044 | 71,254 | 63,234 | 8,020 | 63,272 | (38) |
| Office of Property Assessment | 11,715 | 14,693 | 11,564 | 3,129 | 7,967 | 3,597 |
| Transportation | 546 | 634 | 604 | 30 | 498 | 106 |
| Law | 12,771 | 15,340 | 14,827 | 513 | 14,501 | 326 |
| Board of Ethics | 898 | 909 | 713 | 196 | 683 | 30 |
| Youth Commission | 94 | 94 | 57 | 37 | 42 | 15 |
| Inspector General | 1,256 | 1,461 | 1,259 | 202 | 1,239 | 20 |
| City Planning Commission | 2,212 | 2,257 | 2,252 | 5 | 2,209 | 43 |
| Commission on Human Relations | 1,998 | 2,025 | 1,688 | 337 | 1,830 | (142) |
| Zoning Code Commisssion | - | - | - | - | 216 | (216) |
| Arts & Culture | 2,670 | 2,675 | 2,596 | 79 | 2,662 | (66) |
| Board of Revision of Taxes | 709 | 1,058 | 1,056 | 2 | 576 | 480 |
| Total General Government | 145,855 | 133,827 | 118,855 | 14,972 | 114,676 | 4,179 |
| **Operation of Service Departments** | | | | | | |
| Housing | 2,520 | 2,840 | 2,840 | - | 4,213 | (1,373) |
| Managing Director | 69,476 | 74,123 | 73,276 | 847 | 21,732 | 51,544 |
| Police | 556,818 | 585,104 | 585,104 | - | 568,922 | 16,182 |
| Streets | 111,818 | 124,300 | 118,695 | 5,605 | 123,523 | (4,828) |
| Fire | 189,305 | 200,545 | 200,457 | 88 | 195,532 | 4,925 |
| Public Health | 111,646 | 112,378 | 109,077 | 3,301 | 107,770 | 1,307 |
| Office-Behavioral Health/Mental Retardation | 14,272 | 14,287 | 14,145 | 142 | 14,240 | (95) |
| Parks and Recreation | 47,781 | 53,184 | 52,468 | 716 | 47,344 | 5,124 |
| Atwater Kent Museum | 269 | 270 | 270 | - | 266 | 4 |
| Public Property | 180,671 | 182,446 | 172,472 | 9,974 | 169,143 | 3,329 |
| Department of Human Services | 111,038 | 103,285 | 90,871 | 12,414 | 103,761 | (12,890) |
| Philadelphia Prisons | 227,851 | 242,659 | 242,659 | - | 232,232 | 10,427 |
| Office of Supportive Housing | 39,641 | 42,706 | 42,112 | 594 | 38,384 | 3,728 |
| Office of Fleet Management | 55,375 | 60,949 | 60,810 | 139 | 55,944 | 4,866 |
| Licenses and Inspections | 21,661 | 21,937 | 21,649 | 288 | 21,429 | 220 |
| Board of L & I Review | 153 | 161 | 127 | 34 | 124 | 3 |
| Board of Building Standards | 70 | 71 | 57 | 14 | 58 | (1) |
| Zoning Board of Adjustment | 356 | 366 | 361 | 5 | 366 | (5) |
| Records | 4,009 | 4,022 | 3,933 | 89 | 3,841 | 92 |
| Philadelphia Historical Commission | 388 | 395 | 352 | 43 | 359 | (7) |
| Art Museum | 2,300 | 2,400 | 2,400 | - | 2,315 | 85 |
| Philadelphia Free Library | 33,682 | 34,040 | 33,591 | 449 | 33,399 | 192 |
| Total Operations of Service Departments | 1,781,100 | 1,862,468 | 1,827,726 | 34,742 | 1,744,897 | 82,829 |
| **Financial Management** | | | | | | |
| Office of Director of Finance | 9,960 | 14,961 | 14,216 | 745 | 12,469 | 1,747 |
| Department of Revenue | 19,338 | 19,594 | 18,661 | 933 | 18,850 | (189) |
| Sinking Fund Commission | 222,473 | 211,883 | 209,845 | 2,038 | 201,046 | 8,799 |
| Procurement | 4,152 | 4,633 | 4,564 | 69 | 4,461 | 103 |
| City Treasurer | 887 | 896 | 884 | 12 | 825 | 59 |
| Audit of City Operations | 7,449 | 7,665 | 7,027 | 638 | 7,289 | (262) |
| Total Financial Management | 264,259 | 259,632 | 255,197 | 4,435 | 244,940 | 10,257 |

**City of Philadelphia** **Schedule XIX**

**Schedule of Budgetary Actual and Estimated Revenues and Obligations**

**General Fund** *Amounts in thousands of USD*

**For the Fiscal Year Ended June 30, 2013 (with comparative actual amounts for the Fiscal Year Ended June 30, 2012)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| | Original | Final | FY 2013 Actual | Positive (Negative) | FY 2012 Actual | Increase (Decrease) |
| **Obligations (Continued)** | | | | | | |
| **City-Wide Appropriations Under the Director of Finance** | | | | | | |
| Fringe Benefits | 1,118,256 | 1,124,884 | 1,119,075 | 5,809 | 1,066,251 | 52,824 |
| Community College of Philadelphia | 25,409 | 25,409 | 25,409 | - | 25,409 | - |
| Legal Services | - | - | - | - | 37,066 | (37,066) |
| Hero Award | 25 | 25 | 21 | 4 | 28 | (7) |
| Refunds | 250 | 93 | - | 93 | - | - |
| Indemnities | 32,458 | 258 | 295 | (37) | 14 | 281 |
| Office of Risk Management | 3,019 | 3,056 | 2,916 | 140 | 2,925 | (9) |
| Witness Fees | 172 | 172 | 132 | 40 | 140 | (8) |
| Contribution to School District | 48,990 | 68,990 | 68,990 | - | 48,930 | 20,060 |
| Total City-Wide Under Director of Finance | 1,228,579 | 1,222,887 | 1,216,838 | 6,049 | 1,180,763 | 36,075 |
| **Promotion and Public Relations** | | | | | | |
| City Representative | 890 | 960 | 960 | - | 879 | 81 |
| Commerce | 18,976 | 18,998 | 18,839 | 159 | 18,361 | 478 |
| Total Promotion and Public Relations | 19,866 | 19,958 | 19,799 | 159 | 19,240 | 559 |
| **Personnel** | | | | | | |
| Civic Service Commission | 167 | 171 | 171 | - | 167 | 4 |
| Personnel Director | 5,347 | 5,560 | 5,301 | 259 | 4,945 | 356 |
| Total Personnel | 5,514 | 5,731 | 5,472 | 259 | 5,112 | 360 |
| **Administration of Justice** | | | | | | |
| Register of Wills | 3,331 | 3,333 | 3,269 | 64 | 3,312 | (43) |
| District Attorney | 31,055 | 31,489 | 31,450 | 39 | 30,888 | 562 |
| Sheriff | 14,089 | 15,146 | 15,146 | - | 15,462 | (316) |
| First Judicial District | 99,935 | 110,374 | 109,394 | 980 | 115,562 | (6,168) |
| Total Administration of Justice | 148,410 | 160,342 | 159,259 | 1,083 | 165,224 | (5,965) |
| **City-Wide Appropriations Under the First Judicial District** | | | | | | |
| Juror Fees | 1,437 | 1,437 | 1,437 | - | 1,412 | 25 |
| **Conduct of Elections** | | | | | | |
| City Commissioners | 8,847 | 8,879 | 8,683 | 196 | 8,611 | 72 |
| Total Obligations | 3,603,867 | 3,675,161 | 3,613,266 | 61,895 | 3,484,875 | 128,391 |
| **Operating Surplus (Deficit) for the Year** | (36,146) | 5,403 | 84,724 | 79,321 | 106,478 | (21,754) |

**City of Philadelphia** **Schedule XX**

**Schedule of Budgetary Actual and Estimated Revenues and Obligations**

**Water Operating Fund** *Amounts in thousands of USD*

**For the Fiscal Year Ended June 30, 2013 (with comparative actual amounts for the Fiscal Year Ended June 30, 2012)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| | Original | Final | FY 2013 Actual | Positive (Negative) | FY 2012 Actual | Increase (Decrease) |
| ***Revenue*** | | | | | | |
| **Locally Generated Non-Tax Revenue** | | | | | | |
| Sales and Charges - Current | 481,100 | 486,740 | 489,134 | 2,394 | 474,478 | 14,656 |
| Sales and Charges - Prior Years | 52,250 | 39,500 | 33,511 | (5,989) | 34,224 | (713) |
| Fire Service Connections | 2,086 | 2,129 | 2,026 | (103) | 2,097 | (71) |
| Surcharges | 5,733 | 5,671 | 5,656 | (15) | 5,110 | 546 |
| Fines and Penalties | 1,037 | 960 | 1,026 | 66 | 838 | 188 |
| Miscellaneous Charges | 1,950 | 1,439 | 1,446 | 7 | 1,223 | 223 |
| Charges to Other Municipalities | 34,000 | 30,000 | 29,512 | (488) | 35,160 | (5,648) |
| Licenses and Permits | 2,250 | 2,480 | 3,184 | 704 | 2,398 | 786 |
| Interest Income | 850 | 850 | 551 | (299) | 246 | 305 |
| Fleet Management - Sale of Vehicles & Equipment | 195 | 175 | 125 | (50) | 108 | 17 |
| Contributions from Sinking Fund Reserve | - | - | 1,707 | 1,707 | 1,086 | 621 |
| Reimbursement of Expenditures | 186 | 316 | 569 | 253 | 438 | 131 |
| Repair Loan Program | 1,866 | 2,645 | 2,802 | 157 | 2,489 | 313 |
| Other | 896 | 950 | 768 | (182) | 417 | 351 |
| Total Locally Generated Non-Tax Revenue | 584,399 | 573,855 | 572,017 | (1,838) | 560,312 | 11,705 |
| **Revenue from Other Governments** | | | | | | |
| State | 500 | 350 | 163 | (187) | 327 | (164) |
| Federal | 1,000 | 1,900 | 2,564 | 664 | 2,865 | (301) |
| Total Revenue from Other Governments | 1,500 | 2,250 | 2,727 | 477 | 3,192 | (465) |
| **Revenue from Other Funds** | 85,990 | 69,691 | 37,212 | (32,479) | 28,985 | 8,227 |
| Total Revenues | 671,889 | 645,796 | 611,956 | (33,840) | 592,489 | 19,467 |
| ***Obligations*** | | | | | | |
| Mayor's Office of Information Services | 16,971 | 16,971 | 14,046 | 2,925 | 11,530 | 2,516 |
| Public Property | 3,740 | 3,740 | 3,739 | 1 | 3,726 | 13 |
| Office of Fleet Management | 8,510 | 8,510 | 7,219 | 1,291 | 7,603 | (384) |
| Water Department | 335,863 | 340,954 | 302,494 | 38,460 | 292,887 | 9,607 |
| City-Wide Appropriation Under the Director of Finance: | | | | | | |
| Pension Contributions | 56,068 | 56,068 | 55,959 | 109 | 48,613 | 7,346 |
| Other Employee Benefits | 43,130 | 43,130 | 40,369 | 2,761 | 38,395 | 1,974 |
| Contributions, Indemnities and Taxes | 6,500 | 1,410 | - | 1,410 | - | - |
| Department of Revenue | 15,708 | 15,707 | 14,602 | 1,105 | 13,933 | 669 |
| Sinking Fund Commission | 201,986 | 201,986 | 201,576 | 410 | 193,509 | 8,067 |
| Procurement Department | 69 | 69 | 69 | - | 46 | 23 |
| Law | 3,108 | 3,108 | 2,861 | 247 | 2,993 | (132) |
| Mayor's Office of Transportation | 236 | 236 | 170 | 66 | 56 | 114 |
| Total Obligations | 691,889 | 691,889 | 643,104 | 48,785 | 613,291 | 29,813 |
| **Operating Surplus (Deficit) for the Year** | (20,000) | (46,093) | (31,148) | 14,945 | (20,802) | (10,346) |

**City of Philadelphia** **Schedule XXI**

**Schedule of Budgetary Actual and Estimated Revenues and Obligations**

**Aviation Operating Fund** *Amounts in thousands of USD*

**For the Fiscal Year Ended June 30, 2013 (with comparative actual amounts for the Fiscal Year Ended June 30, 2012)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| | Original | Final | FY 2013 Actual | Positive (Negative) | FY 2012 Actual | Increase (Decrease) |
| ***Revenue*** | | | | | | |
| **Locally Generated Non-Tax Revenue** | | | | | | |
| Concessions | 26,000 | 35,000 | 34,123 | (877) | 35,284 | (1,161) |
| Space Rentals | 140,000 | 110,000 | 105,207 | (4,793) | 97,483 | 7,724 |
| Landing Fees | 65,000 | 65,000 | 60,025 | (4,975) | 57,669 | 2,356 |
| Parking | 29,000 | 25,500 | 24,041 | (1,459) | 25,035 | (994) |
| Car Rentals | 23,000 | 20,000 | 19,711 | (289) | 18,274 | 1,437 |
| Interest Earnings | 1,000 | 1,000 | 333 | (667) | 666 | (333) |
| Sale of Utilities | 5,000 | 4,200 | 3,227 | (973) | 4,119 | (892) |
| Passenger Facility Charge | 35,000 | 32,000 | 31,160 | (840) | 31,573 | (413) |
| Overseas Terminal Facility Charges | - | - | 11 | 11 | 13 | (2) |
| International Terminal Charge | 28,000 | 20,000 | 19,744 | (256) | 16,349 | 3,395 |
| Other | 19,050 | 9,125 | 3,517 | (5,608) | 7,298 | (3,781) |
| Total Locally Generated Non-Tax Revenue | 371,050 | 321,825 | 301,099 | (20,726) | 293,763 | 7,336 |
| **Revenue from Other Governments** | | | | | | |
| State | 500 | 500 | - | (500) | - | - |
| Federal | 3,000 | 3,000 | 2,528 | (472) | 4,493 | (1,965) |
| Total Revenue from Other Governments | 3,500 | 3,500 | 2,528 | (972) | 4,493 | (1,965) |
| **Revenue from Other Funds** | 2,500 | 2,575 | 989 | (1,586) | 947 | 42 |
| Total Revenue | 377,050 | 327,900 | 304,616 | (23,284) | 299,203 | 5,413 |
| ***Obligations*** | | | | | | |
| Mayor's Office of Information Services | 6,728 | 6,728 | 5,966 | 762 | 5,684 | 282 |
| Police | 14,148 | 14,148 | 14,050 | 98 | 13,738 | 312 |
| Fire | 6,203 | 6,203 | 5,645 | 558 | 5,641 | 4 |
| Public Property | 26,900 | 26,900 | 21,930 | 4,970 | 26,894 | (4,964) |
| Office of Fleet Management | 8,109 | 8,109 | 3,552 | 4,557 | 3,255 | 297 |
| City-Wide Appropriation Under the Director of Finance: | | | | | | |
| Pension Contributions | 27,811 | 30,365 | 30,365 | - | 25,441 | 4,924 |
| Other Employee Benefits | 18,264 | 19,564 | 19,564 | - | 16,271 | 3,293 |
| Purchase of Services | 4,146 | 2,574 | 2,574 | - | 2,641 | (67) |
| Contributions, Indemnities and Taxes | 2,512 | - | - | - | - | - |
| Sinking Fund Commission | 112,549 | 111,361 | 109,521 | 1,840 | 103,178 | 6,343 |
| Commerce | 152,234 | 153,652 | 124,249 | 29,403 | 124,759 | (510) |
| Law | 1,878 | 1,878 | 1,709 | 169 | 1,686 | 23 |
| Mayor's Office of Transportation | 314 | 314 | 187 | 127 | 56 | 131 |
| Total Obligations | 381,796 | 381,796 | 339,312 | 42,484 | 329,244 | 10,068 |
| **Operating Surplus (Deficit) for the Year** | (4,746) | (53,896) | (34,696) | 19,200 | (30,041) | (4,655) |

SEAL OF THE CITY OF PHILADELPHIA
PHILADELPHIA
MANETO

# Statistical Section

## Financial Trends

*These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.*

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*These tables contain service and infrastructure information data to help the reader understand how the information in the City's financial report relates to the services the city provides and the activities it performs.*

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**City of Philadelphia**
**Net Position by Component**
**For the Fiscal Years 2004 Through 2013**

**Table 1**

*Amounts in millions of USD*

*(full accrual basis of accounting)*

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities** | | | | | | | | | | |
| Net Investment in Capital Assets | 175.0 | 241.3 | 248.6 | 161.4 | 206.4 | (5.8) | (59.3) | (47.5) | 83.9 | 232.5 |
| Restricted | 484.1 | 516.5 | 471.5 | 689.7 | 641.0 | 833.8 | 705.1 | 789.5 | 621.8 | 586.8 |
| Unrestricted | (707.0) | (1,028.6) | (1,010.9) | (1,220.5) | (1,567.1) | (2,120.6) | (2,421.9) | (2,495.5) | (2,478.2) | (2,588.9) |
| Total Governmental Activities Net Position | (47.9) | (270.8) | (290.8) | (369.4) | (719.7) | (1,292.6) | (1,776.1) | (1,753.5) | (1,772.5) | (1,769.6) |
| **Business-Type Activities** | | | | | | | | | | |
| Net Investment in Capital Assets | 541.0 | 548.4 | 537.4 | 544.0 | 591.8 | 750.6 | 831.8 | 845.1 | 887.8 | 982.5 |
| Restricted | 504.0 | 472.0 | 551.9 | 635.1 | 644.1 | 511.2 | 489.3 | 550.6 | 591.8 | 628.9 |
| Unrestricted | 91.3 | 269.7 | 273.9 | 257.3 | 266.2 | 269.8 | 257.3 | 234.3 | 257.9 | 173.4 |
| Total Business-Type Activities Net Position | 1,136.3 | 1,290.1 | 1,363.2 | 1,436.4 | 1,502.1 | 1,531.6 | 1,578.4 | 1,630.0 | 1,737.5 | 1,784.8 |
| **Primary Government** | | | | | | | | | | |
| Net Investment in Capital Assets | 716.0 | 789.7 | 786.0 | 705.4 | 798.2 | 744.8 | 772.5 | 797.6 | 971.7 | 1,215.0 |
| Restricted | 988.1 | 988.5 | 1,023.4 | 1,324.8 | 1,285.1 | 1,345.0 | 1,194.4 | 1,340.1 | 1,213.6 | 1,215.7 |
| Unrestricted | (615.7) | (758.9) | (737.0) | (963.2) | (1,300.9) | (1,850.8) | (2,164.6) | (2,261.2) | (2,220.3) | (2,415.5) |
| Total Primary Government Net Position | 1,088.4 | 1,019.3 | 1,072.4 | 1,067.0 | 782.4 | 239.0 | (197.7) | (123.5) | (35.0) | 15.2 |

**City of Philadelphia**
**Changes in Net Positions**
**For the Fiscal Years 2004 Through 2013**

**Table 2**

*Amounts in millions of USD*

*(full accrual basis of accounting)*

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Expenses** | | | | | | | | | | |
| **Governmental Activities:** | | | | | | | | | | |
| Economic Development | 127.4 | 89.5 | 89.8 | 92.6 | 116.4 | 116.0 | 145.0 | 92.2 | 96.5 | 94.2 |
| Transportation: | | | | | | | | | | |
| Streets & Highways | 109.9 | 119.0 | 116.0 | 116.6 | 117.7 | 119.1 | 129.4 | 136.3 | 115.6 | 112.9 |
| Mass Transit | 81.3 | 84.9 | 84.5 | 85.1 | 88.3 | 90.5 | 82.7 | 75.2 | 74.0 | 71.0 |
| Judiciary and Law Enforcement: | | | | | | | | | | |
| Police | 793.8 | 817.1 | 836.0 | 921.4 | 1,002.9 | 985.6 | 990.5 | 1,048.1 | 1,094.2 | 1,087.9 |
| Prisons | 237.1 | 250.2 | 268.7 | 293.2 | 311.4 | 339.1 | 343.8 | 340.4 | 336.7 | 342.2 |
| Courts | 277.2 | 284.9 | 287.1 | 304.1 | 321.6 | 318.7 | 312.0 | 315.0 | 326.2 | 318.1 |
| Conservation of Health: | | | | | | | | | | |
| Emergency Medical Services | 30.6 | 34.2 | 35.6 | 36.0 | 37.2 | 36.9 | 47.8 | 53.3 | 48.4 | 49.7 |
| Health Services | 1,174.6 | 1,275.0 | 1,411.9 | 1,442.6 | 1,572.6 | 1,701.5 | 1,446.7 | 1,524.6 | 1,500.1 | 1,464.9 |
| Housing and Neighborhood Development | 119.0 | 123.0 | 149.5 | 111.2 | 142.1 | 149.1 | 131.3 | 126.1 | 137.7 | 102.9 |
| Cultural and Recreational | | | | | | | | | | |
| Recreation | 118.4 | 68.3 | 73.3 | 73.4 | 86.2 | 77.3 | 77.0 | 98.7 | 97.3 | 102.3 |
| Parks | 32.6 | 30.2 | 28.9 | 32.6 | 36.6 | 37.7 | 37.9 | 14.0 | 9.0 | 8.6 |
| Libraries and Museums | 67.5 | 80.7 | 68.6 | 90.3 | 87.0 | 92.8 | 79.0 | 75.7 | 80.8 | 76.1 |
| Improvements to General Welfare: | | | | | | | | | | |
| Social Services | 691.2 | 697.6 | 702.0 | 765.5 | 794.1 | 756.3 | 718.8 | 718.4 | 675.5 | 625.3 |
| Education | 58.6 | 61.6 | 59.9 | 64.0 | 65.5 | 67.2 | 65.4 | 64.0 | 74.3 | 94.4 |
| Inspections and Demolitions | 81.3 | 79.0 | 55.3 | 64.3 | 47.3 | 27.8 | 23.4 | 30.1 | 26.5 | 38.0 |
| Service to Property: | | | | | | | | | | |
| Sanitation | 121.0 | 126.0 | 128.8 | 134.4 | 138.0 | 137.8 | 142.7 | 143.0 | 153.2 | 136.7 |
| Fire | 215.4 | 229.6 | 236.1 | 285.3 | 284.8 | 278.6 | 266.0 | 285.9 | 292.2 | 296.8 |
| General Management and Support | 576.9 | 519.9 | 574.8 | 568.7 | 636.9 | 684.1 | 683.3 | 561.0 | 678.4 | 743.4 |
| Interest on Long Term Debt | 98.3 | 138.2 | 136.9 | 149.5 | 95.1 | 214.6 | 174.9 | 136.3 | 112.1 | 161.8 |
| Total Governmental Activities Expenses | 5,012.1 | 5,108.9 | 5,343.7 | 5,630.8 | 5,981.7 | 6,230.7 | 5,897.6 | 5,838.3 | 5,928.7 | 5,927.2 |
| **Business-Type Activities:** | | | | | | | | | | |
| Water and Sewer | 416.9 | 442.3 | 455.4 | 476.2 | 504.3 | 530.8 | 502.5 | 520.2 | 490.8 | 513.4 |
| Aviation | 261.0 | 269.5 | 303.1 | 314.3 | 323.1 | 326.2 | 330.1 | 336.0 | 343.1 | 358.9 |
| Industrial and Commercial Development | 2.5 | 4.7 | 2.1 | 3.7 | 2.1 | 3.0 | 0.1 | 1.9 | - | 0.6 |
| Total Business-Type Activities Expenses | 680.4 | 716.5 | 760.6 | 794.2 | 829.5 | 860.0 | 832.7 | 858.1 | 833.9 | 872.9 |
| Total Primary Government Expenses | 5,692.5 | 5,825.4 | 6,104.3 | 6,425.0 | 6,811.2 | 7,090.7 | 6,730.3 | 6,696.4 | 6,762.6 | 6,800.1 |
| **Program Revenues** | | | | | | | | | | |
| **Governmental Activities:** | | | | | | | | | | |
| **Charges for Services:** | | | | | | | | | | |
| Economic Development | 6.9 | 0.1 | - | - | - | 0.3 | 0.1 | - | 1.1 | 2.6 |
| Transportation: | | | | | | | | | | |
| Streets & Highways | 1.5 | 1.9 | 2.2 | 3.5 | 3.9 | 2.8 | 4.4 | 5.1 | 5.2 | 5.3 |
| Mass Transit | 0.5 | 0.5 | 0.6 | 0.6 | 0.5 | 0.4 | 0.5 | 0.6 | 1.3 | 1.9 |
| Judiciary and Law Enforcement: | | | | | | | | | | |
| Police | 2.4 | 2.2 | 7.2 | 1.7 | 4.3 | 5.0 | 3.3 | 3.5 | 5.5 | 6.3 |
| Prisons | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 | 0.9 | 0.7 |
| Courts | 52.5 | 48.4 | 51.5 | 51.5 | 52.7 | 51.8 | 53.4 | 45.6 | 60.6 | 59.9 |
| Conservation of Health: | | | | | | | | | | |
| Emergency Medical Services | 20.7 | 23.1 | 25.0 | 27.7 | 27.6 | 37.5 | 36.8 | 34.7 | 27.5 | 33.3 |
| Health Services | 11.6 | 13.5 | 14.0 | 12.6 | 15.3 | 14.4 | 16.2 | 16.7 | 14.8 | 16.7 |
| Housing and Neighborhood Development | 12.0 | 10.0 | 22.3 | 45.2 | 25.2 | 31.3 | 20.8 | 23.1 | 28.6 | 23.5 |
| Cultural and Recreational: | | | | | | | | | | |
| Recreation | 13.0 | 0.8 | 0.4 | 0.2 | 0.3 | 3.2 | (0.1) | 2.8 | 2.2 | 3.8 |
| Parks | 1.7 | 0.9 | 0.4 | 0.5 | 1.5 | 0.6 | 0.9 | 5.0 | 4.8 | 3.3 |
| Libraries and Museums | 0.4 | 0.5 | 0.9 | 0.9 | 0.8 | 1.3 | 0.9 | 1.8 | 1.2 | 1.0 |
| Improvements to General Welfare: | | | | | | | | | | |
| Social Services | 6.9 | 7.6 | 7.4 | 7.3 | 6.4 | 7.6 | 14.4 | 6.8 | 5.2 | 8.3 |
| Education | - | - | - | - | - | 1.1 | - | - | - | 0.1 |
| Inspections and Demolitions | 0.8 | 0.7 | 0.7 | 44.4 | 44.9 | 40.3 | 43.9 | 45.5 | 50.0 | 53.9 |
| Service to Property: | | | | | | | | | | |
| Sanitation | 2.0 | 2.1 | 1.8 | - | 3.1 | 2.9 | 2.0 | 11.6 | 15.9 | 16.2 |
| Fire | 0.1 | 0.5 | 0.4 | 0.7 | 0.2 | 0.7 | 0.3 | 0.5 | 0.3 | 0.9 |
| General Management and Support | 138.2 | 130.8 | 179.1 | 107.5 | 110.6 | 131.9 | 127.9 | 136.6 | 139.7 | 134.2 |
| Interest on Long Term Debt | - | - | - | - | - | - | - | 9.2 | 0.3 | - |
| **Operating Grants and Contributions** | 1,958.7 | 2,067.2 | 2,142.1 | 2,204.9 | 2,339.9 | 2,438.1 | 2,050.4 | 2,223.5 | 2,102.1 | 1,986.4 |
| **Capital Grants and Contributions** | 19.6 | 9.1 | 21.4 | 15.8 | 10.0 | 35.0 | 46.9 | 32.1 | 43.2 | 48.9 |
| Total Governmental Activities Program Revenues | 2,250.0 | 2,320.3 | 2,477.8 | 2,525.3 | 2,647.5 | 2,806.6 | 2,423.5 | 2,605.2 | 2,510.4 | 2,407.2 |

**City of Philadelphia**
**Changes in Net Positions**
**For the Fiscal Years 2004 Through 2013**

**Table 2**

*Amounts in millions of USD*

*(full accrual basis of accounting)*

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Business-Type Activities:** | | | | | | | | | | |
| **Charges for Services:** | | | | | | | | | | |
| Water and Sewer | 401.6 | 450.6 | 470.8 | 493.6 | 503.3 | 499.7 | 552.4 | 558.5 | 598.3 | 608.7 |
| Aviation | 251.9 | 278.4 | 295.0 | 309.2 | 303.2 | 251.7 | 240.0 | 258.1 | 263.2 | 291.4 |
| Industrial and Commercial Development | 1.2 | 1.1 | 1.2 | 1.5 | 1.5 | 0.5 | 0.3 | 0.5 | 0.4 | 0.4 |
| **Operating Grants and Contributions** | 4.8 | 2.0 | 2.5 | 2.8 | 5.4 | 2.6 | 6.1 | 4.8 | 3.5 | 2.3 |
| **Capital Grants and Contributions** | 21.0 | 20.7 | 25.3 | 22.4 | 36.6 | 109.4 | 90.5 | 105.9 | 91.6 | 58.2 |
| Total Business-Type Activities Program Revenues | 680.5 | 752.8 | 794.8 | 829.5 | 850.0 | 863.9 | 889.3 | 927.8 | 957.0 | 961.0 |
| Total Primary Government Revenues | 2,930.5 | 3,073.1 | 3,272.6 | 3,354.8 | 3,497.5 | 3,670.5 | 3,312.8 | 3,533.0 | 3,467.4 | 3,368.2 |
| **Net (Expense)/Revenue** | | | | | | | | | | |
| Governmental Activities | (2,762.1) | (2,788.6) | (2,865.9) | (3,105.5) | (3,334.2) | (3,424.1) | (3,474.1) | (3,233.1) | (3,418.3) | (3,520.0) |
| Business-Type Activities | 0.1 | 36.3 | 34.2 | 35.3 | 20.5 | 3.9 | 56.6 | 69.7 | 123.1 | 88.1 |
| Total Primary Government Net Expense | (2,762.0) | (2,752.3) | (2,831.7) | (3,070.2) | (3,313.7) | (3,420.2) | (3,417.5) | (3,163.4) | (3,295.2) | (3,431.9) |
| **General Revenues and Other Changes in Net Position** | | | | | | | | | | |
| **Governmental Activities:** | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property Taxes | 374.4 | 381.8 | 386.3 | 399.2 | 401.3 | 409.2 | 400.8 | 506.6 | 500.8 | 553.8 |
| Wage & Earnings Taxes | 1,345.9 | 1,373.0 | 1,424.9 | 1,498.5 | 1,524.5 | 1,465.5 | 1,448.5 | 1,504.6 | 1,551.7 | 1,598.7 |
| Business Taxes | 319.2 | 367.9 | 430.2 | 453.7 | 414.5 | 407.6 | 385.2 | 364.2 | 399.2 | 452.4 |
| Other Taxes | 342.1 | 406.4 | 457.7 | 460.3 | 457.0 | 435.0 | 578.3 | 645.8 | 663.6 | 706.0 |
| Unrestricted Grants & Contributions | 47.1 | 84.3 | 81.7 | 104.1 | 104.7 | 107.8 | 171.4 | 173.8 | 223.2 | 187.4 |
| Interest & Investment Earnings | 26.0 | 32.9 | 60.2 | 81.8 | 65.3 | 46.1 | 25.5 | 35.8 | 33.3 | 17.9 |
| Special Items | - | - | - | - | - | - | - | - | - | - |
| Transfers | - | 4.4 | 5.0 | 4.9 | 4.9 | 4.2 | 28.3 | 24.9 | 27.5 | 21.4 |
| Total Governmental Activities | 2,454.7 | 2,650.7 | 2,846.0 | 3,002.5 | 2,972.2 | 2,875.4 | 3,038.0 | 3,255.7 | 3,399.3 | 3,537.6 |
| **Business-Type Activities:** | | | | | | | | | | |
| Interest & Investment Earnings | 6.6 | 15.8 | 43.8 | 45.7 | 48.7 | 22.9 | 7.7 | 6.9 | 9.0 | 12.7 |
| Unrestricted Grants & Contributions | - | - | - | - | - | - | - | - | 2.9 | 42.2 |
| Transfers | - | (4.4) | (4.9) | (4.9) | (4.9) | (4.2) | (28.3) | (24.9) | (27.5) | (21.4) |
| Total Business-Type Activities | 6.6 | 11.4 | 38.9 | 40.8 | 43.8 | 18.7 | (20.6) | (18.0) | (15.6) | 33.5 |
| Total Primary Government | 2,461.3 | 2,662.1 | 2,884.9 | 3,043.3 | 3,016.0 | 2,894.1 | 3,017.4 | 3,237.7 | 3,383.7 | 3,571.1 |
| **Change in Net Position** | | | | | | | | | | |
| Governmental Activities | (307.4) | (137.9) | (19.9) | (103.0) | (362.0) | (548.7) | (436.1) | 22.6 | (19.0) | 17.6 |
| Business-Type Activities | 6.7 | 47.7 | 73.1 | 76.1 | 64.3 | 22.6 | 36.0 | 51.7 | 107.5 | 121.6 |
| Total Primary Government | (300.7) | (90.2) | 53.2 | (26.9) | (297.7) | (526.1) | (400.1) | 74.3 | 88.5 | 139.2 |

**City of Philadelphia**
**Fund Balances**
**Governmental Funds**
**For the Fiscal Years 2004 Through 2013**

**Table 3**

*Amounts in millions of USD*

*(modified accrual basis of accounting)*

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **General Fund** | | | | | | | | | | |
| Non-spendable: | - | - | - | - | - | - | - | - | - | - |
| Restricted for: | | | | | | | | | | |
| Central Library Project | - | - | 10.0 | 4.8 | 4.9 | 4.7 | 2.3 | 2.3 | 2.3 | 2.3 |
| Stadium Financing | 18.7 | 4.3 | 6.0 | 6.4 | 0.1 | 1.7 | 0.6 | 0.3 | 0.5 | 2.1 |
| Cultural & Commercial Corridor Project | - | - | - | 143.3 | 122.5 | 89.8 | 30.8 | 19.2 | 15.3 | 12.2 |
| Long Term Loan | 45.0 | 45.0 | 45.0 | 45.0 | 22.5 | - | - | - | - | 79.7 |
| Committed to: | | | | | | | | | | |
| Encumbrances | 88.5 | 141.5 | 132.4 | 135.6 | 108.8 | 102.8 | - | - | - | - |
| General Fund | - | - | - | - | - | - | 87.9 | - | - | - |
| Assigned to: | - | - | - | - | - | - | - | - | 70.5 | 98.0 |
| Unassigned: | (148.1) | (36.4) | 111.2 | 152.7 | (24.3) | (274.6) | (251.8) | (45.7) | - | 90.0 |
| Total General Fund: | 4.1 | 154.3 | 304.5 | 487.8 | 234.4 | (75.6) | (130.2) | (23.9) | 88.6 | 284.4 |
| **All Other Governmental Funds** | | | | | | | | | | |
| Non-spendable: | | | | | | | | | | |
| Permanent Fund (Principal) | - | - | - | - | - | - | - | 2.6 | 2.6 | 2.8 |
| Restricted for: | | | | | | | | | | |
| Behavioral Health | 36.9 | 61.5 | 196.0 | 192.9 | 177.8 | 188.7 | 171.0 | 250.1 | 230.7 | 233.7 |
| Neighborhood Revitalization | 87.4 | 173.6 | 130.1 | 99.9 | 77.8 | 74.6 | 73.1 | 61.3 | 51.6 | 34.2 |
| Public Safety Emergency Phone System | 8.4 | 6.8 | 16.7 | 21.7 | 28.7 | 38.8 | 40.4 | 36.9 | 29.6 | 24.5 |
| Economic Development | - | - | - | - | - | - | - | 6.6 | 10.3 | 7.2 |
| Intergovernmental Financing | 30.6 | 31.7 | 26.8 | 24.5 | 18.6 | 12.1 | 7.9 | 21.1 | 21.7 | 33.9 |
| Intergovernmentally Financed Pgms | | | | | | | | 24.5 | 18.9 | - |
| Streets & Highways | 2.2 | 2.8 | 4.0 | 7.5 | 12.8 | 16.8 | 16.8 | 18.3 | 23.2 | 23.9 |
| Housing & Neighborhood Development | - | - | - | - | - | - | - | 10.5 | 10.5 | 15.0 |
| Health Services | - | - | - | - | - | 4.0 | 10.8 | 8.8 | 9.5 | 15.2 |
| Debt Service | 88.3 | 88.1 | 84.3 | 92.3 | 80.9 | 79.1 | 76.6 | 82.8 | 82.4 | 81.5 |
| Capital Improvements | 80.9 | - | - | 103.0 | 21.0 | 196.1 | 152.2 | 267.7 | 128.5 | 29.2 |
| Trust Purposes | 7.1 | 7.4 | 7.8 | 8.9 | 8.3 | 6.4 | 4.7 | 8.1 | 8.3 | 8.9 |
| Parks & Recreation | - | - | - | - | - | - | - | 0.3 | 0.4 | 0.4 |
| Libraries & Museums | - | - | - | - | - | - | - | 0.1 | 0.1 | 0.1 |
| Stadium Financing | - | - | - | - | - | - | - | 6.3 | 6.4 | 6.8 |
| Committed to: | | | | | | | | | | |
| Capital Improvements | 77.8 | 76.5 | 76.0 | 56.7 | 61.7 | 62.5 | 37.9 | - | - | - |
| Economic Development | - | - | - | - | - | - | 6.5 | - | - | - |
| Housing & Neighborhood Development | - | - | 9.6 | 15.9 | 17.4 | 18.6 | 15.2 | - | - | - |
| Debt Service | 5.7 | 6.5 | 4.9 | 5.2 | 5.7 | 5.6 | 7.9 | - | - | - |
| Trust Purposes | 5.0 | 5.6 | 6.9 | 9.2 | 9.1 | 8.0 | 7.7 | - | - | - |
| Intergovernmental Financing | 44.9 | 43.6 | 50.1 | 53.3 | 52.2 | 62.6 | 36.2 | - | - | - |
| Social Services | - | - | - | - | - | - | - | - | 0.0 | 0.0 |
| Prisons | - | - | - | - | - | - | - | 3.6 | 4.2 | 4.4 |
| Parks & Recreation | - | - | - | - | - | - | - | 0.5 | 0.9 | 0.7 |
| Assigned to: | | | | | | | | | | |
| Behavioral Health | 144.0 | 134.7 | - | 28.4 | 40.5 | - | 42.5 | - | - | - |
| PICA Rebate Fund | 3.9 | 5.7 | 6.5 | 7.0 | 7.4 | 8.0 | 7.5 | - | - | - |
| PMA | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | - | - | - |
| Unassigned: | | | | | | | | | | |
| Community Behavioral Health | - | - | (24.8) | - | - | (5.4) | - | - | - | - |
| Housing & Neighborhood Dev | (6.6) | (8.0) | (5.5) | (3.9) | (3.2) | (5.0) | (4.0) | (4.0) | (6.5) | (7.2) |
| Parks & Recreation | - | - | - | - | - | - | - | - | - | - |
| Grants Revenue Fund | (53.9) | (43.3) | (51.2) | (26.2) | (23.0) | (36.7) | (39.0) | (34.3) | (175.1) | (217.1) |
| Capital Improvement | - | (6.3) | (67.1) | - | - | - | - | - | - | - |
| Total All Other Governmental Funds | 562.6 | 587.1 | 471.3 | 696.3 | 594.2 | 734.9 | 672.1 | 771.7 | 458.1 | 298.1 |

[1] Effective April 15, 2003, the City implemented a change to the basis on which the Business Privilege Tax is collected requiring an estimated payment applicable to the next year's tax liability.
A portion of these estimated tax payments are deferred in the general fund beginning in FY2003 because the underlying events had not occured.

**City of Philadelphia**
**Changes in Fund Balances**
**Governmental Funds**
**For the Fiscal Years 2004 Through 2013**

**Table 4**

*Amounts in millions of USD*

*(modified accrual basis of accounting)*

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | |
| Tax Revenue | 2,379.0 | 2,535.2 | 2,535.2 | 2,805.1 | 2,781.8 | 2,705.2 | 2,812.3 | 2,995.0 | 3,112.5 | 3,304.4 |
| Locally Generated Non-Tax Revenue | 280.0 | 265.2 | 265.2 | 381.7 | 349.7 | 349.3 | 302.7 | 370.6 | 336.5 | 348.6 |
| Revenue from Other Governments | 1,922.3 | 2,242.0 | 2,242.0 | 2,376.6 | 2,468.4 | 2,564.9 | 2,323.4 | 2,366.4 | 2,226.1 | 2,212.0 |
| Other Revenues | 18.5 | 16.7 | 16.7 | 17.1 | 17.9 | 49.6 | 33.1 | 25.8 | 27.5 | 27.9 |
| Total Revenues | 4,599.8 | 5,059.1 | 5,059.1 | 5,580.5 | 5,617.8 | 5,669.0 | 5,471.5 | 5,757.8 | 5,702.6 | 5,892.9 |
| **Expenditures** | | | | | | | | | | |
| Current Operating: | | | | | | | | | | |
| Economic Development | 157.0 | 92.7 | 92.7 | 85.5 | 112.3 | 107.0 | 135.1 | 82.6 | 88.9 | 85.9 |
| Transportation: | | | | | | | | | | |
| Streets & Highways | 75.9 | 77.7 | 77.7 | 89.2 | 89.7 | 89.9 | 91.1 | 87.4 | 75.6 | 81.6 |
| Mass Transit | 52.9 | 56.6 | 56.6 | 58.1 | 61.7 | 63.7 | 65.2 | 67.1 | 67.7 | 66.5 |
| Judiciary and Law Enforcement: | | | | | | | | | | |
| Police | 752.0 | 770.9 | 770.9 | 860.2 | 951.9 | 933.9 | 882.7 | 955.9 | 1,020.0 | 1,089.4 |
| Prisons | 224.5 | 241.3 | 241.3 | 278.1 | 298.2 | 326.9 | 315.2 | 315.9 | 318.2 | 338.7 |
| Courts | 267.8 | 276.9 | 276.9 | 292.3 | 311.1 | 310.5 | 288.1 | 294.9 | 312.3 | 309.2 |
| Conservation of Health: | | | | | | | | | | |
| Emergency Medical Services | 29.7 | 33.3 | 33.3 | 34.9 | 36.0 | 36.2 | 45.0 | 50.7 | 46.7 | 50.0 |
| Health Services | 1,170.3 | 1,271.1 | 1,271.1 | 1,436.8 | 1,567.6 | 1,695.0 | 1,436.5 | 1,514.8 | 1,492.7 | 1,464.6 |
| Housing and Neighborhood Development | 119.0 | 122.9 | 122.9 | 109.2 | 141.9 | 148.4 | 131.2 | 126.1 | 133.8 | 102.8 |
| Cultural and Recreational: | | | | | | | | | | |
| Recreation | 65.7 | 58.3 | 58.3 | 62.2 | 74.3 | 65.1 | 58.4 | 82.9 | 85.9 | 90.3 |
| Parks | 23.8 | 23.7 | 23.7 | 26.3 | 28.9 | 31.8 | 26.9 | 5.8 | 6.1 | 3.9 |
| Libraries and Museums | 61.1 | 68.2 | 68.2 | 83.2 | 84.2 | 81.0 | 68.8 | 68.7 | 71.9 | 72.0 |
| Improvements to General Welfare: | | | | | | | | | | |
| Social Services | 683.4 | 689.1 | 689.1 | 756.7 | 778.2 | 743.1 | 699.7 | 701.8 | 674.3 | 624.3 |
| Education | 58.6 | 61.5 | 61.5 | 64.0 | 65.5 | 67.2 | 65.4 | 64.0 | 74.3 | 94.4 |
| Inspections and Demolitions | 83.6 | 81.2 | 81.2 | 63.0 | 46.3 | 33.1 | 27.3 | 34.8 | 32.2 | 45.8 |
| Service to Property: | | | | | | | | | | |
| Sanitation | 117.8 | 122.0 | 122.0 | 129.5 | 132.9 | 134.6 | 130.6 | 133.9 | 146.2 | 137.2 |
| Fire | 203.0 | 217.8 | 217.8 | 267.6 | 276.4 | 266.9 | 237.6 | 258.1 | 267.8 | 295.9 |
| General Management and Support | 472.4 | 477.1 | 477.1 | 563.7 | 618.4 | 693.8 | 615.0 | 568.5 | 619.1 | 622.8 |
| Capital Outlay | 126.0 | 103.1 | 103.1 | 92.3 | 105.8 | 126.9 | 148.9 | 134.9 | 202.0 | 161.1 |
| Debt Service: | | | | | | | | | | |
| Principal | 105.7 | 95.8 | 95.8 | 91.5 | 94.1 | 87.6 | 89.7 | 91.4 | 103.2 | 114.1 |
| Interest | 101.6 | 101.0 | 101.0 | 103.4 | 100.0 | 105.7 | 96.7 | 105.6 | 105.2 | 112.2 |
| Bond Issuance Cost | 9.2 | 3.9 | 3.9 | 5.0 | 24.2 | 8.5 | 23.5 | 2.2 | 1.6 | 4.4 |
| Capital Lease Principal | - | - | - | - | - | - | - | - | - | - |
| Capital Lease Interest | - | - | - | - | - | - | - | - | - | - |
| Total Expenditures | 4,961.0 | 5,046.1 | 5,046.1 | 5,552.7 | 5,999.6 | 6,156.8 | 5,678.6 | 5,748.0 | 5,945.7 | 5,967.1 |
| Excess of Revenues Over (Under) Expenditures | (361.2) | 13.0 | 13.0 | 27.8 | (381.8) | (487.8) | (207.1) | 9.8 | (243.1) | (74.2) |
| **Other Financing Sources (Uses)** | | | | | | | | | | |
| Issuance of Debt | 487.7 | 157.3 | 157.3 | 353.1 | 1,303.8 | 262.9 | 207.0 | 139.1 | 12.6 | 299.8 |
| Issuance of Refunding Debt | - | - | - | - | - | 354.9 | 337.0 | 114.6 | 112.6 | 231.2 |
| Bond Issuance Premium | 4.8 | - | - | 13.8 | 31.1 | 26.7 | 24.3 | 5.0 | 16.6 | 0.8 |
| Proceeds from Lease & Service Agreements | 10.9 | - | - | - | - | (3.1) | (1.0) | 28.1 | - | (252.7) |
| Bond Defeasance | (233.1) | - | - | - | (1,313.7) | (326.9) | (504.0) | (117.6) | (127.3) | (190.5) |
| Transfers In | 442.9 | 581.4 | 581.4 | 460.1 | 465.2 | 574.5 | 558.1 | 583.1 | 600.8 | 613.1 |
| Transfers Out | (442.9) | (577.0) | (577.0) | (455.1) | (460.2) | (570.3) | (529.7) | (558.1) | (573.3) | (591.7) |
| Total Other Financing Sources (Uses) | 270.3 | 161.7 | 161.7 | 371.9 | 26.2 | 318.7 | 91.7 | 194.2 | 42.0 | 110.0 |
| Net Change in Fund Balances | (90.9) | 174.7 | 174.7 | 399.7 | (355.6) | (169.1) | (115.4) | 204.0 | (201.1) | 35.8 |
| Debt Service as a Percentage of Non-capital Expenditures | 4.3% | 4.0% | 4.0% | 3.6% | 3.3% | 3.2% | 3.4% | 3.5% | 3.6% | 3.9% |

[1] Effective April 15, 2003, the City implemented a change to the basis on which the Business Privilege Tax is collected requiring an estimated payment applicable to the next year's tax liability. $166.9 million of these estimated tax payments were deferred in the general fund in FY2013 because the underlying events had not occured.

**City of Philadelphia**
**Comparative Schedule of Operations**
**Municipal Pension Fund**
**For the Fiscal Years 2004 through 2013**

**Table 5**

*Amounts in millions of USD*

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Additions: | | | | | | | | | | |
| Contributions: | | | | | | | | | | |
| Employee Contributions | 50.5 | 49.3 | 48.9 | 49.2 | 51.7 | 54.0 | 51.6 | 52.7 | 50.0 | 49.6 |
| Employer's: | | | | | | | | | | |
| City of Philadelphia | 196.6 | 290.6 | 321.3 | 419.2 | 412.4 | 440.0 | 297.4 | 455.8 | 539.8 | 763.7 |
| Quasi-Governmental Agencies | 6.2 | 8.6 | 10.4 | 13.1 | 14.5 | 15.4 | 15.1 | 14.2 | 16.2 | 18.1 |
| Total Employer's Contributions | 202.8 | 299.2 | 331.7 | 432.3 | 426.9 | 455.4 | 312.5 | 470.1 | 556.0 | 781.8 |
| Total Contributions | 253.3 | 348.5 | 380.6 | 481.5 | 478.6 | 509.4 | 364.1 | 522.8 | 606.0 | 831.4 |
| Interest & Dividends | 68.4 | 74.6 | 65.1 | 80.3 | 97.1 | 75.6 | 70.5 | 79.5 | 86.2 | 122.9 |
| Net Gain (Decline) in Fair Value of Investments | 526.6 | 306.2 | 386.4 | 684.7 | (322.0) | (945.6) | 381.2 | 618.5 | (57.7) | 213.9 |
| (Less) Investment Expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (13.3) | (12.2) |
| Net Securities Lending Revenue | 0.8 | 0.9 | 0.7 | 1.1 | 7.4 | 5.7 | 1.9 | 1.5 | 2.1 | 3.0 |
| Securities Lending Unrealized Loss | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (1.9) | 118.0 |
| (Less) Securities Lending Expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.9) | (0.3) |
| Net Investment Income (Loss) | 595.8 | 381.7 | 452.2 | 766.1 | (217.5) | (864.3) | 453.6 | 699.5 | 14.5 | 445.3 |
| Miscellaneous Operating Revenue | 1.3 | 0.4 | 2.1 | 2.1 | 1.1 | 1.0 | 0.7 | 1.4 | 0.0 | 0.5 |
| Total Additions | 850.4 | 730.6 | 834.9 | 1,249.7 | 262.2 | (353.9) | 818.4 | 1,223.7 | 620.5 | 1,277.2 |
| Deductions: | | | | | | | | | | |
| Pension Benefits | 657.5 | 590.6 | 608.6 | 655.8 | 725.7 | 681.1 | 680.1 | 681.9 | 706.2 | 740.8 |
| Refunds to Members | 4.1 | 4.6 | 4.8 | 4.5 | 4.2 | 4.8 | 4.5 | 5.1 | 6.5 | 5.7 |
| Administrative Costs | 6.4 | 6.8 | 6.7 | 6.7 | 7.6 | 8.4 | 8.1 | 8.0 | 0.0 | 8.1 |
| Other Operating Expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 15.2 | 0.2 |
| Total Deductions | 668.0 | 602.0 | 620.1 | 667.0 | 737.5 | 694.3 | 692.7 | 695.0 | 727.9 | 754.8 |
| Net Increase (Decrease) | 182.4 | 128.6 | 214.8 | 582.7 | (475.3) | (1,048.2) | 125.7 | 528.7 | (107.4) | 522.4 |
| Net Assets: Adjusted Opening | 3,790.8 | 3,973.2 | 4,101.8 | 4,316.6 | 4,899.3 | 4,424.0 | 3,375.9 | 3,501.6 | 4,030.2 | 3,922.8 |
| Closing | 3,973.2 | 4,101.8 | 4,316.6 | 4,899.3 | 4,424.0 | 3,375.9 | 3,501.6 | 4,030.2 | 3,922.8 | 4,445.2 |
| Ratios: | | | | | | | | | | |
| Pension Benefits Paid as a Percent of: | | | | | | | | | | |
| Net Members Contributions | 1417.03% | 1321.25% | 1380.05% | 1467.11% | 1527.79% | 1383.30% | 1443.95% | 1432.56% | 1623.45% | 1687.47% |
| Closing Net Assets | 16.55% | 14.40% | 14.10% | 13.39% | 16.40% | 20.18% | 19.42% | 16.92% | 18.00% | 16.67% |
| Coverage of Additions over Deductions | 127.31% | 121.36% | 134.64% | 187.36% | 35.55% | -50.97% | 118.15% | 176.07% | 85.25% | 169.21% |
| Investment Earnings as % of Pension Benefits | 90.62% | 64.63% | 74.30% | 116.82% | -29.97% | -126.90% | 66.70% | 102.58% | 2.05% | 60.11% |

## City of Philadelphia

**Table 6**

### Wage and Earnings Tax Taxable Income
### For the Calendar Years 2003 Through 2012

*Amounts in millions of USD*

| | City Residents | | | Non-City Residents | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Taxable Income | % of Total | Direct Rate [1,2] | Taxable Income | % of Total | Direct Rate [1, 2] | Total Taxable Income | Total Direct Rate |
| 2003 | 18,073.7 | 58.86% | 4.48130% | 12,635.0 | 41.14% | 3.89640% | 30,708.7 | 4.24064% |
| 2004 | 18,428.5 | 58.31% | 4.46250% | 13,175.0 | 41.69% | 3.88010% | 31,603.5 | 4.21971% |
| 2005 | 19,177.8 | 58.14% | 4.33100% | 13,805.0 | 41.86% | 3.81970% | 32,982.8 | 4.11699% |
| 2006 | 20,194.0 | 57.85% | 4.30100% | 14,715.3 | 42.15% | 3.77160% | 34,909.3 | 4.07784% |
| 2007 | 21,051.3 | 57.33% | 4.26000% | 15,670.2 | 42.67% | 3.75570% | 36,721.5 | 4.04480% |
| 2008 | 22,013.7 | 57.19% | 4.09950% | 16,479.4 | 42.81% | 3.63170% | 38,493.1 | 3.89923% |
| 2009 | 21,805.5 | 57.38% | 3.92980% | 16,197.3 | 42.62% | 3.49985% | 38,002.8 | 3.74655% |
| 2010 | 22,170.8 | 57.02% | 3.92880% | 16,713.5 | 42.98% | 3.49910% | 38,884.3 | 3.74410% |
| 2011 | 22,726.3 | 57.06% | 3.92800% | 17,102.2 | 42.94% | 3.49850% | 39,828.5 | 3.74357% |
| 2012 | 23,292.1 | 56.83% | 3.92800% | 17,690.6 | 43.17% | 3.49850% | 40,982.7 | 3.74260% |

Note:

The Wage and Earnings Tax is a tax on salaries, wages and commissions and other compensation paid to an employee who is employed by or renders services to an employer. All Philadelphia residents owe this tax regardless of where they perform services. Non-residents who perform services in Philadelphia must also pay this tax.

[1] For the years 2000 through 2003 the rate changed on July 1st. For those years the direct rate is an average of the two rates involved during the calendar year.

[2] In 2008 and 2009, the rate changed on January 1st and July 1st. The direct rate is an average of the two rates involved during that calendar year.

**City of Philadelphia** **Table 7**

**Direct and Overlapping Tax Rates**

**For the Ten Fiscal Years 2004 through 2013**

| Tax Classification | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Wage and Earnings Tax:** | | | | | | | | | | |
| a City Residents | 4.4625% | 4.3310% [b] | 4.3010% [b] | 4.2600% [b] | 4.2190% [b] | 3.9300% [b] | 3.9296% [b] | 3.9280% [b] | 3.9280% [b] | 3.9280% |
| Non-City Residents | 3.8801% | 3.8197% [b] | 3.7716% [b] | 3.7557% [b] | 3.7242% [b] | 3.5000% [b] | 3.4997% [b] | 3.4985% [b] | 3.4985% [b] | 3.4985% |
| Wage and Earnings Tax is a tax on salaries, wages and commissions and other compensation paid to an employee who is employed by or renders services to an employer. All Philadelphia residents owe this tax regardless of where they perform services. Non-residents who perform services in Philadelphia must also pay this tax | | | | | | | | | | |
| [d] **Real Property: (% on Assessed Valuation)** | | | | | | | | | | |
| City | 3.474% | 3.474% | 3.474% | 3.474% | 3.305% | 3.305% | 3.305% | 4.123% | 4.123% | 4.462% |
| School District of Philadelphia | 4.790% | 4.790% | 4.790% | 4.790% | 4.959% | 4.959% | 4.959% | 4.959% | 5.309% | 5.309% |
| Total Real Property Tax | 8.264% | 8.264% | 8.264% | 8.264% | 8.264% | 8.264% | 8.264% | 9.082% | 9.432% | 9.771% |
| [e] Assessment Ratio | 30.02% | 29.70% | 29.69% | 29.24% | 29.22% | 28.86% | 28.46% | 26.73% | 28.05% | 28.87% |
| Effective Tax Rate (Real Property Rate x Assessment Ratio) | 2.481% | 2.454% | 2.454% | 2.416% | 2.415% | 2.385% | 2.352% | 2.428% | 2.646% | 2.821% |
| The City and the School District impose a tax on all real estate in the City. Real Estate Tax bills are sent out in December and are due and payable March 31st without penalty or interest. If you pay your bill on or before the last day of February, you receive a 1% discount. | | | | | | | | | | |
| **Real Property Transfer Tax** | | | | | | | | | | |
| City | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Commonwealth of Pennsylvania | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| Total Real Property Transfer Tax | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| Realty Transfer Tax is levied on the sale or transfer of real estate located in Philadelphia. The tax also applies to the sale or transfer of an interest in a corporation or partnership that owns real estate. Certain long term leases are also subject to this tax. | | | | | | | | | | |
| **Business Income and Receipts Taxes** | | | | | | | | | | |
| (% on Gross Receipts) | 0.2300% [c] | 0.2100% [c] | 0.1900% [c] | 0.1665% [c] | 0.1540% [c] | 0.1415% [c] | 0.1415% [c] | 0.1415% [c] | 0.1415% [c] | 0.1415% [c] |
| [f] (% on Net Income) | 6.5000% [c] | 6.5000% [c] | 6.5000% [c] | 6.5000% [c] | 6.5000% [c] | 6.4500% [c] | 6.4500% [c] | 6.4500% [c] | 6.4500% [c] | 6.4500% [c] |
| Every individual, partnership, association and corporation engaged in a business, profession or other activity for profit within the City of Philadelphia must file a BIRT Return. | | | | | | | | | | |
| [c] **Net Profits Tax:** | | | | | | | | | | |
| [a] City Residents | 4.4625% | 4.4625% | 4.3310% | 4.3010% | 4.2600% | 3.9800% | 3.9296% | 3.9280% | 3.9280% | 3.9280% |
| Non-City Residents | 3.8801% | 3.8801% | 3.8197% | 3.7716% | 3.7557% | 3.5392% | 3.4997% | 3.4985% | 3.4985% | 3.4985% |
| Net Profits Tax is levied on the net profits from the operation of a trade, business, profession, enterprise or other activity conducted by individuals, partnerships, associations or estates and trusts. | | | | | | | | | | |

**City of Philadelphia** **Table 7**

**Direct and Overlapping Tax Rates**

**For the Ten Fiscal Years 2004 through 2013**

| Tax Classification | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales Tax** | | | | | | | | | | |
| City | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Commonwealth of Pennsylvania | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| Total Sales Tax | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| **Amusement Tax** | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Imposed on the admission fee charged for attending any amusement in the City. Included are concerts, movies, athletic contests, night clubs and convention shows for which admission is charged. | | | | | | | | | | |
| **Parking Lot Tax** | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% |
| Parking Tax is levied on the gross receipts from all financial transactions involving the parking or storing of automobiles or other motor vehicles in outdoor or indoor parking lots and garages in the City. | | | | | | | | | | |
| **Hotel Room Rental Tax** | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 7.2% | 8.2% | 8.2% | 8.2% | 8.2% |
| **Rate of Tourism & Marketing Tax** | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 8.2% | 9.2% | 9.2% | 9.2% | 9.2% |
| Imposed on the rental of a hotel room to accommodate paying guests. The term "hotel" includes an apartment, hotel, motel, inn, guest house, bed and breakfast or other building located within the City which is available to rent for overnight lodging or use of facility space to persons seeking temporary accommodations. | | | | | | | | | | |
| **Vehicle Rental Tax** | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Imposed on any person acquiring the custody or possession of a rental vehicle in the City under a rental contract for money or other consideration. | | | | | | | | | | |

[a] Pursuant to an agreement with the Pennsylvania Intergovernmental Cooperation Authority (PICA), PICA's share of the Wage, Earnings and Net Profits Tax is 1.5% of City residents portion only.

[b] Effective January 1 of the fiscal year cited, the previous fiscal year's rate was in effect from July 1 through December 31. For FY 2011, from July 1 through December 31, 2010 the rates were 3.928 % and 3.4985%.

[c] Rates apply to the tax year (previous calendar year) and the tax is due April 15th in the fiscal year cited.

[d] Rates apply to the tax year (current calendar year) and the tax is due March 31st in the fiscal year cited.

[e] The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. The ratio is used for the purpose of equalizing certain state school aid distribution.

[f] 60% of the Net Income portion of the Business Income and Receipts Tax is allowed to be credited against the Net Profits Tax.

**City of Philadelphia** **Table 8**

**Principal Wage and Earnings Tax Remitters** [1]

**Current Calendar Year and Nine Years Ago**

*Amounts in millions of USD*

| | 2012 | | | 2003 | | |
|---|---|---|---|---|---|---|
| Remittance Range | # of Remitters (Employers) | Total Amount Remitted | Percentage of Total Remitted | # of Remitters (Employers) | Total Amount Remitted | Percentage of Total Remitted |
| Greater then $10 million | 16 | $397.8 | 25.94% | 15 | $323.8 | 24.87% |
| Between $1 million & $10 million | 157 | 369.2 | 24.07% | 126 | 298.7 | 22.94% |
| Between $100,000 & $1 million | 1,636 | 418.4 | 27.28% | 1,379 | 355.6 | 27.31% |
| Between $10,000 & $100,000 | 8,785 | 259.7 | 16.93% | 8,238 | 242.0 | 18.58% |
| Less then $10,000 | 39,138 | 88.7 | 5.78% | 36,217 | 82.1 | 6.30% |
| Total | 49,732 | $1,533.8 | 100.00% | 45,975 | $1,302.2 | 100.00% |

[1] Wage & Earnings information for individual remitters is confidential

## City of Philadelphia

**Table 9**

### Assessed Value and Estimated Value of Taxable Property
### For the Calendar Years 2004 through 2013

*Amounts in millions of USD*

| Calendar Year of Levy [1] | Assessed Value [3] | Less: Tax-Exempt Property [2, 3] | Total Taxable Assessed Value | Total Direct Tax Rate [4] | STEB Ratio [5] | Estimated Actual Taxable Value (STEB) | Sales Ratio [6] | Estimated Actual Taxable Value (Sales) |
|---|---|---|---|---|---|---|---|---|
| 2004 | 14,813 | 3,867 | 10,946 | 3.474% | 30.02% | 36,462 | 24.21% | 45,213 |
| 2005 | 15,072 | 4,040 | 11,032 | 3.474% | 29.70% | 37,145 | 23.73% | 46,490 |
| 2006 | 15,803 | 4,372 | 11,431 | 3.474% | 29.69% | 38,501 | 17.42% | 65,620 |
| 2007 | 16,243 | 4,628 | 11,615 | 3.474% | 29.24% | 39,723 | 17.94% | 64,744 |
| 2008 | 16,974 | 4,799 | 12,175 | 3.305% | 29.22% | 41,667 | 16.44% | 74,057 |
| 2009 | 17,352 | 5,146 | 12,206 | 3.305% | 28.86% | 42,294 | 24.64% | 49,537 |
| 2010 | 17,615 | 5,339 | 12,276 | 3.305% | 28.46% | 43,134 | 13.35% | 91,955 |
| 2011 | 17,940 | 5,593 | 12,347 | 4.123% | 26.73% | 46,192 | 13.13% | 94,037 |
| 2012 | 18,022 | 5,685 | 12,337 | 4.123% | 28.05% | 43,982 | 11.88% | 103,847 |
| 2013 | 18,181 | 5,765 | 12,416 | 4.462% | 28.87% | 43,007 | NA | NA |

[1] Real property tax bills are sent out in November and are payable at one percent (1%) discount until February 28th, otherwise the face amount is due by March 31 without penalty or interest.

[2] Bill #1130, approved February 8, 1978, provides relief from real estate taxes on improvements to deteriorated industrial, commercial or other business property for a period of five years. Bill #982, approved July 9, 1990, changed the exemption period from five years to three years. Bill #225, approved October 4, 2000, extended the exemption period from three years to ten years.

Bill #1456A, approved January 28, 1983, provides for a maximum three year tax abatement for owner-occupants of newly constructed residential property. Bill #226, approved September 12, 2000, extended the exemption period from three years to ten years.

Legislative Act #5020-205 as amended, approved October 11, 1984, provides for a maximum thirty month tax abatement to developers of residential property.

Bill #274, approved July 1, 1997, provides a maximum ten year tax abatement for conversion of eligible deteriorated commercial or other business property to commercial non-owner occupied residential property.

Bill #788A, approved December 30, 1998, provides a maximum twelve year tax exemption, abatement or credit of certain taxes within the geographical area designated as the Philadelphia Keystone Opportunity Zone.

[3] Source: Board of Revison of Taxes

[4] per $1,000.00 of assessed value

[5] The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. See Table 13.

[6] This ratio is compiled by the Board of Revision of Taxes based on sales of property during the year.

**City of Philadelphia**
**Principal Property Tax Payers**
**Current Year and Nine Years Ago**

**Table 10**

*Amounts in millions of USD*

| | 2013 | | | 2004 | | |
|---|---|---|---|---|---|---|
| Taxpayer | Assessment [1] | Rank | Percentage of Total Assessments | Assessment [1] | Rank | Percentage of Total Assessments |
| Franklin Mills Associates | 57.6 | 1 | 0.46 | 48.4 | 5 | 0.44 |
| Phila Liberty Pla E Lp | 54.4 | 2 | 0.44 | 64.3 | 1 | 0.59 |
| Nine Penn Center Associates | 54.1 | 3 | 0.44 | 57.4 | 2 | 0.52 |
| HUB Properties Trust | 43.8 | 4 | 0.35 | 52.3 | 4 | 0.48 |
| PRU 1901 Market LLC | 35.2 | 5 | 0.28 | 32.9 | 7 | 0.30 |
| Maguire/Thomas | 33.9 | 6 | 0.27 | 32.0 | 9 | 0.29 |
| Commerce Square Partners | 33.3 | 7 | 0.27 | 32.3 | 8 | 0.30 |
| Brandywine Operating Part (Bell Atlantic) | 33.1 | 8 | 0.27 | 45.1 | 6 | 0.41 |
| Phila Shipyard Development Corp | 30.3 | 9 | 0.24 | - | - | - |
| Philadelphia Market Street | 28.8 | 10 | 0.23 | 30.4 | 10 | 0.28 |
| Two Liberty Place | | | - | 56.0 | 3 | 0.51 |
| | 404.5 | | 3.26 | 451.1 | | 4.12 |
| Total Taxable Assessments | 12,416.2 | | 100.00 | 10,945.9 | | 100.00 |

[1] Source: Office of Property Assessment

**City of Philadelphia**
**Real Property Tax Levied and Collected**
**For the Calendar Years 2004 through 2013**
**General Fund**

**Table 11**

*Amounts in millions of USD*

| Calendar Year | Taxes Levied for the Year **1 | Taxes Levied Based on Adjusted Assessment **2 | Collected in the Calendar Year of Levy **3 | Percentage Collected in the Calendar Year of Levy | Collected in Subsequent Years **4 | Total Collected to Date: All Years | Percentage Collected to Date: All Years |
|---|---|---|---|---|---|---|---|
| 2004 | 372.5 | NA | 340.9 | 91.5% | 26.7 | 367.6 | 98.7% |
| 2005 | 373.5 | NA | 350.3 | 93.8% | 22.5 | 372.8 | 99.8% |
| 2006 | 385.6 | NA | 339.6 | 88.1% | 23.7 | 363.3 | 94.2% |
| 2007 | 391.7 | NA | 347.5 | 88.7% | 24.5 | 372.0 | 95.0% |
| 2008 | 390.2 | NA | 346.4 | 88.8% | 26.3 | 372.7 | 95.5% |
| 2009 | 396.5 | NA | 315.4 | 79.5% | 44.5 | 359.9 | 90.8% |
| 2010 | 405.8 | NA | 353.7 | 87.2% | 37.7 | 391.4 | 96.5% |
| 2011 | 509.1 | NA | 440.9 | 86.6% | 38.1 | 479.0 | 94.1% |
| 2012 | 508.6 | 492.5 | 459.2 | 93.2% | 6.4 | 465.6 | 94.5% |
| 2013 | 554.0 | 540.7 | 487.1 | 90.1% | N/A | 487.1 | 90.1% |

**1 Taxes are levied on a calendar year basis. They are due on March 31st.

**2 Adjustments include assessment appeals, a 1% discount for payment in full by the end of February, the senior citizen tax freeze, and the tax increment financing (TIF) return of tax paid.

**3 For 2013, "collections in the calendar year of levy" does not include the full 12 months; it only includes collections thru the end of June 2013.

**4 Includes payments from capitalized interest and penalty. This capitalization occurs only after the first year of the levy on any principal that remains unpaid at that time.

Note that all amounts in this table pertain to the General Fund only and do not include amounts levied and collected for the school district.

The collection percentages for the school district are the same as for the General Fund.

**City of Philadelphia**
**Ratios of Outstanding Debt by Type**
**For the Fiscal Years 2004 through 2013**

**Table 12**

*Amounts in millions of USD (except per capita)*

| | Governmental Activities | | | | | | | | | Business-Type Activities | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | General Obligation Bonds | Pension Service Agreement | City Service Agreement | Neighborhood Transformation Initiative | One Parkway Agreement | Sports Stadia Agreement | Central Library Project | Cultural & Commercial Corridor | Total Governmental Activities | General Obligation Bonds | Water Revenue Bonds | Airport Revenue Bonds | Total Business-Type Activities | Total Primary Government | % of Personal Income [1] | Per Capita |
| 2004 | 2,047.1 | 1,416.4 | - | 146.5 | 53.5 | 341.9 | - | - | 4,005.4 | 11.6 | 1,614.7 | 1,073.1 | 2,699.4 | 6,704.8 | 0.2 | 4,440.3 |
| 2005 | 1,950.8 | 1,429.7 | - | 285.3 | 52.2 | 341.1 | - | - | 4,059.1 | 8.1 | 1,815.4 | 1,077.4 | 2,900.9 | 6,960.0 | 0.2 | 4,597.1 |
| 2006 | 1,863.8 | 1,439.2 | - | 279.8 | 50.9 | 339.6 | 10.1 | - | 3,983.4 | 7.0 | 1,747.3 | 1,168.8 | 2,923.1 | 6,906.5 | 0.2 | 4,549.7 |
| 2007 | 1,993.7 | 1,444.9 | - | 273.9 | 49.6 | 334.0 | 9.7 | 139.6 | 4,245.4 | 5.8 | 1,674.3 | 1,141.0 | 2,821.1 | 7,066.5 | 0.1 | 4,649.0 |
| 2008 | 1,899.1 | 1,446.6 | - | 267.8 | 47.7 | 328.8 | 9.3 | 136.6 | 4,135.9 | 4.6 | 1,590.0 | 1,282.2 | 2,876.8 | 7,012.7 | 0.1 | 4,583.5 |
| 2009 | 2,093.8 | 1,443.8 | - | 261.5 | 46.3 | 323.6 | 8.9 | 133.3 | 4,311.2 | 3.4 | 1,648.7 | 1,250.4 | 2,902.5 | 7,213.7 | 0.1 | 4,684.2 |
| 2010 | 2,085.1 | 1,428.3 | - | 254.8 | 44.9 | 319.6 | 8.5 | 129.9 | 4,271.1 | 2.2 | 1,574.9 | 1,213.9 | 2,791.0 | 7,062.1 | 0.1 | 4,565.0 |
| 2011 | 2,135.0 | 1,407.3 | - | 247.8 | 43.4 | 314.9 | 8.1 | 126.4 | 4,282.9 | 1.0 | 1,738.2 | 1,450.8 | 3,190.0 | 7,472.9 | 0.1 | 4,897.1 |
| 2012 | 2,041.1 | 1,379.3 | - | 240.3 | 41.9 | 310.0 | 7.7 | 122.8 | 4,143.1 | - | 1,819.9 | 1,383.1 | 3,203.0 | 7,346.1 | 0.1 | 4,782.6 |
| 2013 [2] | 1,968.7 | 1,171.3 | 423.3 | 234.1 | 41.8 | 313.0 | 7.7 | 119.9 | 4,279.8 | - | 1,830.4 | 1,355.4 | 3,185.8 | 7,465.6 | 0.1 | 4,822.7 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

[1] See Table 17 for Personal Income and Population Amounts

[2] FY 2013 amounts reflect the implementation of GASB Statement No. 65

**City of Philadelphia** **Table 13**

**Ratios of General Bonded Debt Outstanding**

**For the Fiscal Years 2004 through 2013**

*Amounts in millions of USD (except per capita)*

| Fiscal Year | General Obligation Bonds | Assessed Taxable Value of Property [1] | Assessed Ratio [2] | Actual Taxable Value of Property | % of Actual Taxable Value of Property | Per Capita [3] |
|---|---|---|---|---|---|---|
| 2004 | 2,047.1 | 10,945.9 | 30.02% | 36,462.0 | 5.61% | 1,348.88 |
| 2005 | 1,950.8 | 11,031.8 | 29.70% | 37,144.1 | 5.25% | 1,283.21 |
| 2006 | 1,863.8 | 11,430.6 | 29.69% | 38,499.8 | 4.84% | 1,218.15 |
| 2007 | 1,993.7 | 11,615.0 | 29.24% | 39,723.0 | 5.02% | 1,294.32 |
| 2008 | 1,899.1 | 12,175.2 | 29.22% | 41,667.4 | 4.56% | 1,227.37 |
| 2009 | 2,093.8 | 12,205.6 | 28.86% | 42,292.4 | 4.95% | 1,372.08 |
| 2010 | 2,085.1 | 12,276.3 | 28.46% | 43,135.3 | 4.83% | 1,357.07 |
| 2011 | 2,135.0 | 12,347.1 | 26.73% | 46,191.9 | 4.62% | 1,365.09 |
| 2012 | 2,041.1 | 12,337.0 | 28.05% | 43,982.2 | 4.64% | 1,328.84 |
| 2013 | 1,968.7 | 12,416.0 | 28.87% | 43,006.6 | 4.58% | 1,271.77 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statement.

[1] Source: Board of Revison of Taxes

[2] The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. The ratio is used for the purpose of equalizing certain state school aid distribution.

[3] See Table 17 for Population Amounts

# City of Philadelphia
## Direct and Overlapping Governmental Activities Debt
## June 30, 2013

**Table 14**

*Amounts in millions of USD*

| | Debt Outstanding | Estimated Percentage Applicable | Estimated Share of Direct and Overlapping Debt |
|---|---|---|---|
| **Governmental Unit** | | | |
| School District of Philadelphia | 3,226.0 | 100.00% | 3,260.0 |
| [1] **City Direct Debt** | | | 4,279.8 |
| Total Direct and Overlapping Debt | | | 7,539.8 |

Note:

Overlapping governments are those that coincide, in least in part, with the geographic boundries of the City. The outstanding debt of the School District of Philadelphia is supported by property taxes levied on properties within the City boundries. This schedule attempts to show the entire debt burden borne by City residents and businesses.

[1] Refer to Table 12

**City of Philadelphia**
**Legal Debt Margin Information**
**For the Fiscal Years 2004 through 2013**

**Table 15**

*Amounts in Millions of USD*

Legal Debt Margin Calculation for FY2013

| | | |
|---|---|---|
| [1] | Assessed Value | 12,370.3 |
| [2] | Debt Limit | 1,670.0 |
| [3] | Debt Applicable to Limit: | |
| | Tax Supported General Obligation Debt: | |
| | Issued & Outstanding | 1,276.2 |
| | Authorized but Unissued | 341.7 |
| | Total | 1,617.9 |
| | Less: Amount set aside for repayment of general obligation debt | - |
| | Total Net Debt Applicable to Limit | 1,617.9 |
| | Legal Debt Margin | 52.1 |

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Debt Limit | 1,280.3 | 1,304.8 | 1,335.6 | 1,374.7 | 1,418.0 | 1,469.4 | 1,523.4 | 1,571.9 | 1,622.3 | 1,670.0 |
| Total Net Debt Applicable to Limit | 1,159.1 | 1,205.5 | 1,185.8 | 1,293.4 | 1,329.3 | 1,352.3 | 1,407.0 | 1,474.6 | 1,542.5 | 1,617.9 |
| Legal Debt Margin | 121.2 | 99.3 | 149.8 | 81.3 | 88.7 | 117.1 | 116.4 | 97.3 | 79.8 | 52.1 |
| Total Net Debt Applicable to the Limit as a Percent of Total Debt | 90.53% | 92.39% | 88.78% | 94.09% | 93.74% | 92.03% | 92.36% | 93.81% | 95.08% | 96.88% |

[1] Average of the annual assessed valuation of taxable realty during the ten year period immediately preceding.

[2] Thirteen and one-half percent (13.5%) of the average of the annual assessed valuation of taxable realty during the ten year period immediately preceding.

[3] Refer to Purdon's Statutes 53 P.S. Section 15721

**City of Philadelphia** **Table 16**

**Pledged Revenue Coverage**

**For the Fiscal Years 2004 through 2013**

*Amounts in millions of USD*

| No. | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Water and Sewer Revenue Bonds** | | | | | | | | | | |
| 1 | Total Revenue and Beginning Fund Balance | 421.6 | 463.5 | 504.0 | 536.2 | 597.8 | 527.5 | 566.7 | 589.7 | 613.3 | 638.4 |
| 2 | Net Operating Expenses | 262.0 | 277.7 | 284.2 | 303.2 | 334.7 | 342.6 | 334.0 | 357.7 | 375.1 | 399.3 |
| 3 | Transfer To (From) Rate Stabilization Fund | (28.8) | (0.6) | 21.6 | 26.0 | (9.8) | (34.7) | (2.7) | 10.9 | 8.5 | (4.7) |
| 4 | Net Revenues | 188.4 | 186.4 | 198.2 | 207.0 | 272.9 | 219.6 | 235.4 | 221.1 | 229.7 | 243.8 |
| | Debt Service: | | | | | | | | | | |
| 5 | Revenue Bonds Outstanding | 157.0 | 155.4 | 165.2 | 172.7 | 173.8 | 183.0 | 195.7 | 184.3 | 191.4 | 201.0 |
| 6 | General Obligation Bonds Outstanding | - | - | - | - | - | - | | | | |
| 7 | Pennvest Loan | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.0 | - |
| 8 | Total Debt Service | 158.2 | 156.6 | 166.4 | 173.9 | 175.0 | 184.2 | 196.9 | 185.5 | 192.4 | 201.0 |
| 9 | Net Revenue after Debt Service | 30.2 | 29.8 | 31.8 | 33.1 | 97.9 | 35.4 | 38.5 | 35.6 | 37.3 | 42.8 |
| 10 | Transfer to General Fund | - | 4.4 | 5.0 | 5.0 | 5.0 | 4.2 | 2.3 | - | 1.1 | 0.6 |
| 11 | Transfer to Capital Fund | 16.4 | 16.7 | 16.9 | 16.9 | 16.9 | 17.1 | 17.3 | 18.1 | 18.9 | 19.4 |
| 12 | Transfer to Residual Fund | 13.8 | 8.7 | 9.9 | 11.2 | 76.0 | 14.1 | 18.9 | 17.5 | 17.3 | 22.8 |
| 13 | Ending Fund Balance | - | - | - | - | - | - | - | - | - | - |
| | Debt Service Coverage: | | | | | | | | | | |
| | Coverage A (Line 4/Line 5) | 1.20 | 1.20 | 1.20 | 1.20 | 1.57 | 1.20 | 1.20 | 1.20 | 1.20 | 1.21 |
| | Coverage B (Line 4/(Line 8 + Line 11)) | 1.08 | 1.08 | 1.08 | 1.08 | 1.42 | 1.09 | 1.10 | 1.09 | 1.09 | 1.11 |
| | **Airport Revenue Bonds** | | | | | | | | | | |
| 1 | Fund Balance | - | - | - | 10.2 | 42.6 | 61.4 | 55.1 | 77.6 | 65.9 | 69.3 |
| 2 | Project Revenues | 183.3 | 185.1 | 200.8 | 211.3 | 250.5 | 255.3 | 246.9 | 260.8 | 269.6 | 291.8 |
| 3 | Passenger Facility Charges | 32.8 | 32.9 | 32.6 | 32.9 | 32.9 | 32.9 | 33.1 | 32.4 | 31.6 | 31.2 |
| 4 | Total Fund Balance and Revenue | 216.1 | 218.0 | 233.4 | 254.4 | 326.0 | 349.6 | 335.1 | 370.8 | 367.1 | 392.3 |
| 5 | Net Operating Expenses | 71.9 | 71.3 | 77.2 | 87.1 | 99.8 | 99.5 | 102.9 | 98.1 | 99.0 | 110.7 |
| 6 | Interdepartmental Charges | 52.2 | 57.6 | 57.9 | 70.6 | 89.1 | 89.0 | 80.7 | 88.6 | 92.7 | 101.9 |
| 7 | Total Expenses | 124.1 | 128.9 | 135.1 | 157.7 | 188.9 | 188.5 | 183.6 | 186.7 | 191.7 | 212.6 |
| | Available for Debt Service: | | | | | | | | | | |
| 8 | Revenue Bonds (Line 4-Line 5) | 144.2 | 146.7 | 156.2 | 167.3 | 226.2 | 250.1 | 232.2 | 272.7 | 268.1 | 281.6 |
| 9 | All Bonds (Line 4-Line 7) | 92.0 | 89.1 | 98.3 | 96.7 | 137.1 | 161.1 | 151.5 | 184.1 | 175.4 | 179.7 |
| | Debt Service: | | | | | | | | | | |
| 10 | Revenue Bonds | 89.7 | 88.1 | 88.1 | 85.5 | 84.4 | 95.6 | 94.3 | 102.4 | 103.0 | 109.8 |
| 11 | General Obligation Bonds | 1.0 | 1.1 | - | - | - | - | - | - | - | - |
| 12 | Total Debt Service | 90.7 | 89.2 | 88.1 | 85.5 | 84.4 | 95.6 | 94.3 | 102.4 | 103.0 | 109.8 |
| | Debt Service Coverage: | | | | | | | | | | |
| | Revenue Bonds Only - Test "A" (Line 8/Line 10) | 1.61 | 1.67 | 1.77 | 1.96 | 2.68 | 2.62 | 2.46 | 2.66 | 2.60 | 2.56 |
| | Total Debt Service - Test "B" (Line 9/Line 12) | 1.01 | 1.00 | 1.12 | 1.13 | 1.62 | 1.69 | 1.61 | 1.80 | 1.70 | 1.64 |

Note:

The rate covenant of the Aviation issues permit inclusion of Fund Balance at the beginning of the period with project revenues for the period to determine adequacy of coverage.

Coverage "A" requires that Net Revenues equal at least 120% of the Debt Service Requirements while Coverage "B" requires that Net Revenues equal at least 100% of the Debt Service Requirements plus Required Capital Account Transfers. Test "A" requires that Project Resources be equal to Net Operating Expenses plus 150% of Revenue Bond Debt Service for the year. Test "B" requires Project Resources be equal to Operating Expenses for the year plus all debt service requirements for the year except any General Obligation Debt Service not applicable to the project.

Amounts in the above statement have been extracted from reports submitted to the respective Fiscal Agents in accordance with the reporting requirements of the General Ordinance and Supplemental Ordinance relative to rate covenants. Water and Sewer Coverage is calculated on the modified accrual basis; Aviation Fund on the accrual basis. Prior to FY2008 Airport Revenues and Expenses were reduced by amounts applicable to the Outside Terminal Area and the Overseas Terminal as prescribed by the indenture.

# City of Philadelphia

**Table 17**

## Demographic and Economic Statistics

**For the Calendar Years 2003 through 2012**

| Calendar Year | Population [1] | Personal Income [2] (thousands of USD) | Per Capita Personal Income (USD) | Unemployment Rate [3] |
|---|---|---|---|---|
| 2003 | 1,510,068 | 42,198,628 | 27,945 | 7.5% |
| 2004 | 1,514,658 | 43,463,015 | 28,695 | 7.3% |
| 2005 | 1,517,628 | 44,944,207 | 29,615 | 6.7% |
| 2006 | 1,520,251 | 47,566,075 | 31,288 | 6.2% |
| 2007 | 1,530,031 | 50,672,227 | 33,118 | 6.0% |
| 2008 | 1,540,351 | 54,262,716 | 35,228 | 7.1% |
| 2009 | 1,547,297 | 54,061,223 | 34,939 | 9.6% |
| 2010 | 1,526,006 | 56,970,074 | 37,333 | 10.8% |
| 2011 | 1,538,567 | 62,632,520 | 40,708 | 10.8% |
| 2012 | 1,547,607 | 64,151,742 | 41,452 | 10.5% |

[1] US Census Bureau

[2] US Department of Commerce, Bureau of Economic Analysis

[3] US Department of Labor, Bureau of Labor Statistics

# City of Philadelphia

Table 18

## Principal Employers

Current Calendar Year and Nine Years Ago

*Listed Alphabetically*

| 2013 | 2004 |
|---|---|
| Albert Einstein Medical | Albert Einstein Medical |
| Children's Hospital of Philadelphia | City of Philadelphia |
| City of Philadelphia | Hospital of the University of Pennsylania |
| Comcast Corporation | School District of Philadelphia |
| Hospital of the University of Pennsylvania | SEPTA |
| School District of Philadelphia | Temple University |
| SEPTA | Tenet Healthsystem |
| Temple University | Thomas Jefferson University Hospitals |
| Thomas Jefferson University Hospitals | United States Postal Service |
| University Of Pennsylvania | University Of Pennsylvania |

**City of Philadelphia**
**Full Time Employees by Function**
**For the Fiscal Years 2004 through 2013**

**Table 19**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | | | | | |
| Economic Development | 9 | 6 | 6 | 6 | 6 | 23 | 25 | 27 | 28 | 31 |
| Transportation: | | | | | | | | | | |
| Streets & Highways | 597 | 564 | 579 | 585 | 584 | 568 | 515 | 499 | 524 | 517 |
| Mass Transit | 1 | 1 | 1 | 1 | 1 | 8 | 7 | 9 | 13 | 15 |
| Judiciary and Law Enforcement | | | | | | | | | | |
| Police | 7,888 | 7,578 | 7,522 | 7,639 | 7,754 | 7,685 | 7,503 | 7,439 | 7,292 | 7,270 |
| Prisons | 2,002 | 2,227 | 2,228 | 2,183 | 2,153 | 2,309 | 2,268 | 2,173 | 2,150 | 2,245 |
| Courts | 3,471 | 3,450 | 3,403 | 3,361 | 3,386 | 3,310 | 3,215 | 3,225 | 3,249 | 3,260 |
| Conservation of Health: | | | | | | | | | | |
| Emergency Medical Services | 300 | 289 | 255 | 249 | 237 | 256 | 329 | 341 | 338 | 375 |
| Health Services | 1,210 | 1,163 | 1,133 | 1,148 | 1,140 | 1,163 | 1,135 | 1,139 | 1,143 | 1,117 |
| Housing and Neighborhooc | | | | | | | | | | |
| Development | 110 | 105 | 97 | 111 | 108 | 99 | 96 | 94 | 83 | 75 |
| Cultural and Recreational | | | | | | | | | | |
| Recreation | 556 | 511 | 495 | 482 | 483 | 462 | 453 | 601 | 605 | 596 |
| Parks | 200 | 182 | 158 | 156 | 156 | 152 | 158 | 1 | - | - |
| Libraries and Museums | 774 | 726 | 812 | 816 | 808 | 723 | 687 | 682 | 658 | 651 |
| Improvements to General Welfare: | | | | | | | | | | |
| Social Services | 2,220 | 2,196 | 2,140 | 2,164 | 2,232 | 2,107 | 2,079 | 1,989 | 1,924 | 1,832 |
| Inspections and Demolitions | 417 | 380 | 248 | 243 | 246 | 221 | 223 | 214 | 230 | 286 |
| Service to Property: | | | | | | | | | | |
| Sanitation | 1,340 | 1,233 | 1,272 | 1,229 | 1,239 | 1,169 | 1,157 | 1,185 | 1,154 | 1,152 |
| Fire | 2,004 | 1,925 | 1,974 | 2,109 | 2,052 | 2,019 | 1,820 | 1,838 | 1,700 | 1,705 |
| General Management and Support | 2,369 | 2,253 | 2,347 | 2,331 | 2,414 | 2,393 | 2,276 | 2,225 | 2,454 | 2,384 |
| Total Governmental Activities | 25,468 | 24,789 | 24,670 | 24,813 | 24,999 | 24,667 | 23,946 | 23,681 | 23,545 | 23,511 |
| **Business Type Activities:** | | | | | | | | | | |
| Water and Sewer | 2,342 | 2,326 | 2,239 | 2,229 | 2,291 | 2,256 | 2,196 | 2,116 | 2,228 | 2,218 |
| Aviation | 1,021 | 967 | 1,004 | 1,010 | 1,057 | 1,033 | 1,001 | 1,010 | 1,021 | 1,057 |
| Total Business-Type Activities | 3,363 | 3,293 | 3,243 | 3,239 | 3,348 | 3,289 | 3,197 | 3,126 | 3,249 | 3,275 |
| **Fiduciary Activities:** | | | | | | | | | | |
| Pension Trust | 64 | 64 | 65 | 65 | 59 | 69 | 66 | 65 | 61 | 53 |
| Total Primary Government | 28,895 | 28,146 | 27,978 | 28,117 | 28,406 | 28,025 | 27,209 | 26,872 | 26,855 | 26,839 |

**City of Philadelphia**
**Operating Indicators by Function**
**For the Fiscal Years 2004 through 2013**

**Table 20**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | | | | | |
| **Transportation:** | | | | | | | | | | |
| **Streets & Highways** | | | | | | | | | | |
| Street Resurfacing (miles) | 117 | 105 | 102 | 107 | 74 | 119 | 69 | 36 | 37 | 51 |
| Potholes Repaired | 23,179 | 20,862 | 18,203 | 12,721 | 12,326 | 11,976 | 23,049 | 24,406 | 14,451 | 12,093 |
| **Judiciary and Law Enforcement:** | | | | | | | | | | |
| **Police** | | | | | | | | | | |
| Arrests | 68,486 | 67,795 | 69,166 | 73,606 | 75,805 | 68,922 | 64,465 | 73,310 | 70,971 | 71,109 |
| Calls to 911 | 3,290,786 | 3,270,114 | 3,321,896 | 3,398,985 | 3,164,454 | 3,084,261 | 3,064,973 | 2,949,231 | 3,118,648 | 2,979,990 |
| **Prisons** | | | | | | | | | | |
| Average Inmate Population | 7,738 | 8,141 | 8,613 | 8,796 | 9,133 | 9,554 | 8,806 | 7,935 | 8,240 | 8,987 |
| Inmate Beds (city owned) | 8,283 | 8,405 | 8,605 | 8,443 | 9,005 | 9,137 | 9,137 | 8,200 | 8,417 | 8,417 |
| **Conservation of Health:** | | | | | | | | | | |
| **Emergency Medical Services** | | | | | | | | | | |
| Medic Unit Runs | NA | NA | 209,654 | 216,606 | 215,305 | 217,505 | 222,882 | 227,147 | 273,557 | 280,877 |
| First Responder Runs | NA | NA | 69,740 | 68,203 | 60,756 | 53,610 | 54,960 | 66,763 | 60,972 | 57,047 |
| **Health** | | | | | | | | | | |
| Patient Visits | 317,184 | 337,770 | 324,014 | 323,121 | 334,139 | 349,078 | 350,695 | 339,032 | 348,472 | 341,305 |
| Children Screened for Lead Poisoning | 37,863 | 38,013 | 43,038 | 43,501 | 41,590 | 50,525 | 47,713 | 45,844 | 28,244 | 32,271 |
| **Cultural and Recreational:** | | | | | | | | | | |
| **Parks** | | | | | | | | | | |
| Athletic Field Permits Issued | NA | NA | 2,878 | 2,227 | 1,389 | 1,420 | 1,388 | 2,714 | 1,978 | 2,442 |
| **Libraries** | | | | | | | | | | |
| Items borrowed | 6,963,935 | 6,294,315 | 6,188,637 | 6,328,706 | 7,037,694 | 7,419,466 | 6,530,662 | 7,210,217 | 7,503,031 | 6,579,054 |
| Visitors to all libraries | 6,216,973 | 5,517,569 | 6,103,354 | 6,422,857 | 6,648,998 | 6,396,633 | 5,615,201 | 6,103,528 | 6,020,321 | 6,116,762 |
| Visitors to library website | 1,661,794 | 2,044,518 | 2,594,527 | 3,285,380 | 4,912,405 | 4,613,496 | 5,256,928 | 6,131,726 | 6,886,339 | 7,301,311 |
| **Improvements to General Welfare:** | | | | | | | | | | |
| **Social Services** | | | | | | | | | | |
| Children Receiving Services | 28,039 | 28,926 | 28,086 | 28,898 | 25,893 | 35,685 | 31,416 | 28,572 | 28,939 | 27,391 |
| Children in Placement | 9,037 | 8,548 | 7,999 | 8,070 | 7,739 | 7,993 | 8,792 | 7,122 | 7,839 | 8,509 |
| Emergency Shelter Beds (average) | 2,412 | 2,539 | 2,781 | 2,677 | 2,747 | 2,689 | 2,617 | 2,520 | 2,987 | 2,116 |
| Transitional Housing Units (new placements) | 489 | 597 | 448 | 543 | 435 | 476 | 487 | 510 | 558 | 539 |
| **Service to Property:** | | | | | | | | | | |
| **Sanitation** | | | | | | | | | | |
| Refuse Collected (tons per day) | 3,006 | 3,008 | 3,006 | 2,922 | 2,798 | 2,532 | 2,412 | 2,254 | 2,299 | 2,179 |
| Recyclables Collected (tons per day) | 169 | 157 | 155 | 179 | 197 | 288 | 381 | 441 | 461 | 470 |
| **Fire** | | | | | | | | | | |
| Fires Handled | NA | NA | 9,523 | 8,080 | 7,444 | 6,850 | 4,927 | 7,945 | 7,319 | 6,365 |
| Fire Marshall Investigations | NA | NA | 2,734 | 3,153 | 3,097 | 3,031 | 2,726 | 2,711 | 2,387 | 2,135 |
| **Business Type Activities:** | | | | | | | | | | |
| **Water and Sewer** | | | | | | | | | | |
| New Connections | 106 | 137 | 207 | 125 | 295 | 281 | 704 | 121 | 125 | 147 |
| Water Main Breaks | 794 | 706 | 660 | 825 | 687 | 802 | 646 | 954 | 557 | 823 |
| Avg. Daily Treated Water Delivered (x 1000 gallons) | 175,600 | 174,100 | 175,800 | 169,400 | 167,000 | 163,660 | 242,900 | 250,000 | 239,200 | 245,500 |
| Peak Daily Treated Water Delivered (x 1000 gallons) | 201,700 | 210,000 | 207,400 | 179,100 | 170,500 | 167,090 | 272,200 | 282,000 | 254,500 | 270,200 |
| Avg. Daily Water Sewage Treatment (x 1000 gallons) | 476,110 | 478,670 | 430,170 | 463,080 | 411,830 | 417,330 | 468,200 | 410,000 | 443,500 | 388,400 |
| [1] **Aviation** | | | | | | | | | | |
| Passengers Handled (PIA) | 26,190,976 | 31,074,454 | 31,341,459 | 31,885,333 | 32,287,035 | 30,819,348 | 30,469,899 | 31,225,470 | 30,612,150 | 30,358,905 |
| Air Cargo Tons (PIA) | 568,898 | 599,758 | 591,815 | 571,452 | 575,640 | 475,365 | 440,495 | 449,683 | 416,731 | 388,383 |
| Aircraft Movements (PIA and NPA) | 584,214 | 629,885 | 625,692 | 614,720 | 593,757 | 551,191 | 543,462 | 458,832 | 517,842 | 506,261 |

[1] PIA (Philadelphia International Airport)-passenger aircraft and cargo. NPA (Northeast Philadelphia Airport)-private aircraft and cargo

**City of Philadelphia**
**Capital Assets Statistics by Function**
**For the Fiscal Years 2004 through 2013**

Table 21

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | | | | | |
| **Transportation:** | | | | | | | | | | |
| **Streets & Highways** | | | | | | | | | | |
| [1] Total Miles of Streets | 2,400 | 2,400 | 2,400 | 2,575 | 2,575 | 2,575 | 2,575 | 2,575 | 2,575 | 2,575 |
| Streetlights | 101,836 | 102,000 | 102,219 | 102,840 | 102,949 | 103,982 | 104,219 | 104,219 | 104,600 | 105,151 |
| **Judiciary and Law Enforcement:** | | | | | | | | | | |
| **Police** | | | | | | | | | | |
| Stations and Other Facilities | 33 | 33 | 33 | 34 | 36 | 35 | 35 | 31 | 32 | 37 |
| **Prisons** | | | | | | | | | | |
| Major Correctional Facilities | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Conservation of Health:** | | | | | | | | | | |
| **Health Services** | | | | | | | | | | |
| Health Care Centers | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| **Cultural and Recreational:** | | | | | | | | | | |
| **Recreation** | | | | | | | | | | |
| Recreation Centers | 164 | 165 | 165 | 171 | 171 | 171 | 171 | 153 | 184 | 185 |
| [2] Athletic Venues | 1,121 | 1,121 | 1,117 | 1,117 | 919 | 915 | 914 | 1,148 | 1,102 | 1,101 |
| [4] Neighborhood Parks and Squares | 232 | 232 | 232 | 232 | 79 | 79 | 79 | - | - | - |
| **Parks** | | | | | | | | | | |
| Parks | 62 | 62 | 62 | 63 | 63 | 63 | 63 | 150 | 177 | 175 |
| Baseball/Softball Fields | 106 | 106 | 106 | 109 | 77 | 79 | 79 | 407 | 404 | 404 |
| **Libraries** | | | | | | | | | | |
| Branch & Regional Libraries | 54 | 53 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 |
| **Service to Property:** | | | | | | | | | | |
| **Fire** | | | | | | | | | | |
| Stations and Other Facilities | 63 | 63 | 64 | 64 | 64 | 63 | 63 | 63 | 68 | 68 |
| **Business Type Activities:** | | | | | | | | | | |
| **Water and Sewer:** | | | | | | | | | | |
| Water System Piping (miles) | 3,169 | 3,169 | 3,169 | 3,133 | 3,137 | 3,145 | 3,236 | 3,164 | 3,172 | 3,174 |
| Fire Hydrants | 27,987 | 26,080 | 26,080 | 25,195 | 25,181 | 25,208 | 25,234 | 25,353 | 25,321 | 25,355 |
| Treated Water Storage Capacity ( x 1000 gallons) | 1,065,500 | 1,065,500 | 1,065,500 | 1,065,500 | 1,065,500 | 1,065,500 | 1,065,400 | 1,065,400 | 1,065,400 | 1,065,400 |
| Sanitary Sewers (miles) | 596 | 596 | 596 | 768 | 750 | 749 | 751 | 758 | 759 | 762 |
| Stormwater Conduits (miles) | 623 | 623 | 623 | 784 | 713 | 720 | 721 | 731 | 734 | 738 |
| Sewage Treatment Capacity ( x 1000 gallons) | 1,044,000 | 1,044,000 | 1,044,000 | 1,044,000 | 1,044,000 | 1,044,000 | 1,044,000 | 1,044,000 | 1,044,000 | 1,065,400 |
| [3] **Aviation** | | | | | | | | | | |
| Passenger Gates (PIA) | 120 | 120 | 120 | 120 | 120 | 120 | 120 | 126 | 126 | 126 |
| Terminal Buildings (square footage) (PIA) | 2,415,000 | 2,415,000 | 2,415,000 | 2,415,000 | 2,415,000 | 2,415,000 | 3,144,000 | 3,144,000 | 3,144,000 | 3,144,000 |
| Runways (length in feet) (PIA & NPA) | 42,460 | 42,460 | 42,460 | 42,460 | 42,460 | 43,500 | 43,500 | 43,500 | 43,500 | 43,500 |

[1] Street System-83% city streets, 2% park streets, 15% state highways

[2] Includes baseball fields, football/soccer fields, tennis, basketball and hockey courts, skating rinks and indoor and outdoor pools

[3] PIA (Philadelphia International Airport)-passenger aircraft and cargo. NPA (Northeast Philadelphia Airport)-private aircraft and cargo.

[4] FPC and Recreation Dept were merged in FY2011, hence the category of Neighborhood Parks and Squares was eliminated.

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Report can be found @ http://www.phila.gov/finance/reports-Comprehensive.html

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# APPENDIX D

## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SECURITY LEASES

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## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SECURITY LEASES

The following are summaries of the Original Indenture, as amended and supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture and the Seventh Supplemental Indenture (collectively, the "Indenture") and the Security Leases. These summaries should not be regarded as full statements of the legal documents themselves, or of the portions summarized.

For a complete statement of the provisions of the Indenture and the Security Leases, reference should be made to those documents in their entirety, copies of which are available at the office of the Trustee as set forth under "INTRODUCTORY STATEMENT- Security" in this Official Statement.

## THE INDENTURE
## DEFINITIONS OF CERTAIN TERMS

Words and terms used in this summary of the Indenture are defined therein and shall have the same meaning herein as in the respective legal documents. Certain of these words and terms are defined below for convenience.

"Accreted Value" means with respect to each Capital Appreciation Bond, the value thereof on a particular date.

"Act" means the Act of August 23, 1967, P.L. 251, as amended, known as the Pennsylvania Economic Development Financing Law.

"Additional Debt" means any series of bonds, notes or other evidences of indebtedness issued under the Indenture, other than any Notes, authenticated and delivered pursuant to Section 3.02 of the Original Indenture.

"Additional Project" means (i) any and all capital improvement projects in connection with the repair, restoration, replacement or demolition of Veterans Stadium, in addition to the Rehabilitation; and (ii) any and all additional land acquisition, site work, demolition, design, construction, equipping of the Practice Facility Premises, the Eagles Premises, the Phillies Premises or any other parcel in connection with the stadia project, improvements and infrastructure in connection with the construction of the stadia or the Practice Facility, and any and all additions, improvements, amenities, repairs or replacements thereto and the finding of any reserves in connection therewith.

"Advance-Refunded Municipal Notes" means obligations the interest on which is excluded from gross income for purposes of federal income taxation that have been advance-refunded prior to their maturity and that are fully and irrevocably secured as to principal and interest by Government Obligations held in trust for the payment hereof, which Advance-Refunded Municipal Notes are rated in the highest rating category by a Rating Agency that maintains a credit rating with respect to such Advance-Refunded Municipal Notes.

"Alternate Rate" means, on any Rate Determination Date, for any Mode, a rate per annum equal to (i) with respect to 2007 Bonds the interest on which is not includable in gross income of the beneficial owner of such 2007BBond for federal income tax purposes, (a) the SIFMA Municipal Swap Index maintained by Municipal Market Data (as such term is defined in the 2000 ISDA U.S. Municipal Counterparty Definitions) (the "SIFMA Rate") most recently available as of the date of determination, or (b) if such index is no longer available, or if the SIFMA Rate is no longer published, the Kenny Index (as such tem1 is defined in the 2000 ISDA U.S. Municipal Counterparty Definitions), or (c) if neither the SIFMA Rate nor the Kenny Index is published, the index determined by the Remarketing Agent to equal the prevailing rate for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Bond Market Association to determine the SIFMA Rate just prior to when the Bond Market Association stopped publishing the SIFMA Rate, and (ii) with respect to 2007 Bonds the interest on which is includable in gross income of the beneficial owner of such 2007B Bond for federal income tax purposes, One-Month LIBOR. If there is no Remarketing Agent, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement, then, upon written notification from the Authority, the Director of Finance of the City shall appoint another Person to make the determination required by clauses (a), (b) and (c) of this definition.

"Authority" means Philadelphia Authority for Industrial Development.

"Authority Board" means the governing body of the Authority.

"Authority Purchase Account" means the account of that name created in Section 3.09 of the Third Supplemental Indenture.

"Authorized Authority Officer" means the Chairman, Vice-Chairman, Secretary, Assistant Secretary, Treasurer, Assistant Treasurer or any other officer of the Authority designated by resolution of the Authority.

"Authorized Representative" means the City Treasurer or a Deputy City Treasurer, or such other individual as the City Treasurer or the Director of Finance of the City shall designate in writing, acting in cooperation with an Authorized Authority Officer, for whom the City and the Authority have each furnished the Trustee with certificates of incumbency and specimen signatures.

"Automatic Termination Event" means an event of default set forth in the Reimbursement Agreement between the Authority and the Liquidity Provider, if any, which would result in the immediate termination of the Liquidity Facility prior to its stated expiration date without prior notice from the Liquidity Provider to the Tender Agent, other than a termination upon the substitution of an Alternate Liquidity Facility.

"Bond Counsel" means an attorney or a law firm appointed by the Authority having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal obligations.

"Bond Fund" means the fund so designated which is established pursuant to Section 4.02 of the First Supplemental Indenture.

"Bonds" means all Additional Debt issued pursuant to the Indenture in the form of bonds, including, but not limited to the Series 2007 Bonds.

"Business Day" means any day other than: (i) a Saturday or Sunday; (ii) in the City, a legal holiday or a day on which banking institutions are authorized by law to close; or (iii) a day on which the Trustee or the Paying Agent is authorized or required by law or executive order to be closed.

"Capital Appreciation Bond" means any Debt obligation designated or identified as a Capital Appreciation Bond by the Supplemental Indenture pursuant to which it was issued.

"Capitalized Interest Account" means the account so designated which is established pursuant to Section 6.13 of the Original Indenture.

"Certified Resolution of the Authority" means a copy of one or more resolutions certified by the Secretary or an Assistant Secretary of the Authority, under its seal, to have been duly adopted by the Authority Board and to be in effect on the date of such certification.

"City" means the City of Philadelphia.

"Clearing Fund" means the fund so designated which is established pursuant to Section 2.12 of the First Supplemental Indenture and Section 2.21 of the Third Supplemental Indenture.

"Code" means the Internal Revenue Code of 1986, as amended, and with respect to a specific section thereof, such reference shall be deemed to include (i) the regulations prescribed under such section, (ii) any predecessor or successor provision of similar import hereafter enacted, (iii) any corresponding provisions of any subsequent Internal Revenue Code, and (iv) the regulations prescribed under the provisions described in (ii) and (iii).

"Commonwealth" means the Commonwealth of Pennsylvania.

"Construction Fund" means the construction fund described in Section 5.01 of the Original Indenture.

"Cost" or "Costs," in connection with the Project or, where applicable, Additional Projects, means all expenses permitted under the Act which are reasonable and necessary for carrying out all work and undertakings with respect to the Project or Additional Projects, or which are incidental to the financing, refinancing, acquisition or construction of the Project and any Additional Projects, including, without limiting the generality of the foregoing:

(a) Amounts payable to contractors and costs incident to the award of contracts;

(b) Costs of labor, facilities and services furnished by the Authority, the City and their employees or others, materials and supplies purchased by the Authority, the City or others, and permits and licenses obtained by the Authority, the City or others;

(c) Engineering, architectural, legal, accounting and other professional and advisory fees;

(d) Premiums for contract bonds and insurance during construction and costs on account of personal injuries and property damage in the course of construction and insurance against the same;

(e) All expenses incurred in connection with the issuance of Debt, including, without limitation, compensation and expenses of the Trustee, including legal fees and expenses, fees and expenses of the Authority, expenses of the City for financial services rendered to it in connection with any Debt financing, legal and accounting expenses and fees, costs of printing and engraving, recording and filing fees, compensation of underwriters, rating agency fees, credit facility fees, surety bond costs, and costs of any other financial services incurred in connection with the Debt;

(f) Capitalized interest on the Debt;

(g) Costs, fees and expenses in connection with the acquisition of real and personal property or rights therein; and

(h) Cost of equipment purchased by the City or others and necessary or desirable for proper operation of the Project or any Additional Project.

In the case of projects for refinancing or redeeming any Debt, "Cost" or "Costs" includes, without limiting the generality of the foregoing, the items listed in (c) and (e) above, advertising and other expenses related to the redemption of the Debt to be redeemed and the Redemption Price, if any, of such Debt (and the accrued interest payable on redemption to the extent not otherwise provided for). Whenever Costs are required to be itemized, such itemization shall, to the extent practicable, correspond with the items listed above. Whenever Costs are to be paid under the Indenture, such payment may be made by way of reimbursement to the Authority or others who have paid the same.

"Counterparty" means any counterparty under a swap agreement entered into by the Authority in connection with any Bonds issued under the Indenture and consisting of all documents entered into between the Authority and a Counterparty as part of such transaction.

"Credit Enhancement" has the same meaning as "Credit Facility" as set forth in the Secured Leases.

"Credit Facility" means any letter of credit, line of credit, surety bond, insurance commitment, insurance policy or similar agreement insuring or otherwise providing for the scheduled payment of the principal of and interest on the Bonds and any credit, loan or reimbursement agreement or other obligation of the Authority to the Credit Provider in connection therewith, and all documents collateral thereto, as may be substituted from time to time.

"Credit Provider" means the issuer of any particular Credit Facility, and its successors and assigns as such issuer.

"Credit Provider Failure" or "Liquidity Provider Failure" means, with respect to any Credit Provider at any particular time, the occurrence and continuance of one or more of the following events: (a) such Credit Provider shall have failed to pay or perform when due its obligations under the Credit Facility issued by it; (b) the Credit

Facility issued by such Credit Provider or any material term or provision thereof shall cease to be in full force and effect (except in accordance with such Credit Facility), or such Credit Provider shall, or shall purport to, terminate (except in accordance with the terms of such Credit Facility), repudiate, declare voidable or void or otherwise contest the validity of, such Credit Facility or any term or provision thereof or any obligation or liability of such Credit Provider thereunder; (c) the commencement by such Credit Provider of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property; or (d) the consent of such Credit Provider to any relief referred to in the previous clause (c) in an involuntary case or other proceeding commenced against it.

"Current Mode" means the Mode then prevailing.

"Debt" means the Notes and any Additional Debt authenticated and delivered under the Indenture.

"Debt Service Requirement," with reference to a specified period means:

(a) interest payable on the Debt under consideration during the period, with adjustment for capitalized interest and interest on the Debt to be redeemed during such period through any sinking fund account;

(b) amounts required to be paid into any mandatory sinking fund account during such period with respect to the Debt under consideration; and

(c) amounts needed to pay the principal and premium, if any, of the Debt under consideration maturing during such period and not to be redeemed prior to maturity through any sinking fund account.

"Daily Mode" means the Mode during which the 2007B Bonds bear interest at the Daily Rate.

"Daily Rate" means the per annum interest rate on any 2007B Bond in the Daily Mode determined pursuant to Section 2.08(a) of the Third Supplemental Indenture.

"DTC" means The Depository Trust Company, New York, New York, or any successor securities depository.

"Eagles" means Philadelphia Eagles Limited Partnership, a Delaware limited partnership.

"Eagles Ground Lease" means a Ground Lease Agreement dated as of April 1, 2001, as it may be amended and supplemented, pursuant to which the City leases to the Authority a parcel of land in connection with the development of a new football stadium for the Eagles.

"Eagles Leaseback" means a Lease-Back Lease Agreement dated as of April!, 2001 , as it may be amended and supplemented, pursuant to which the City leases back to the Authority the Eagles Premises.

"Eagles Leases" means the Eagles Ground Lease, the Eagles Prime Lease and the Eagles Leaseback.

"Eagles Premises" means the parcel of land leased to the Authority pursuant to the Eagles Ground Lease, as improved, including by a new football stadium.

"Eagles Prime Lease" means a Prime Lease dated as of April 1, 2001, as it may be amended and supplemented, pursuant to which the Authority leased back to the City the Eagles Premises.

"Eagles Sublease" means a Sublease and Development Agreement pursuant to which the Authority will lease all or a portion of the Eagles Premises to the Eagles.

"Event of Default" means any of the events described in Section 9.01 of the Original Indenture.

"Federal Tax Certificate" means the Tax Certificate as to Arbitrage and Instructions as to Compliance with the provisions of Section 103(a) of the Internal Revenue Code of 1986, as amended, executed by the Authority and the City in connection with the issuance of any tax-exempt Debt.

"Fifth Supplemental Indenture" means the Fifth Supplemental Trust Indenture dated as of May 1, 2011 between the Authority and the Trustee.

"Financial Consultant" means a firm of investment bankers, a financial consulting firm, a law firm or a firm of certified public accountants, satisfactory to the City, which is experienced in the calculation of amounts required to be rebated to the United States under Section 148(f) of the Code.

"Financial Guaranty" means Financial Guaranty Insurance Company, or any successor thereto or assignee thereof, and which shall constitute a Credit Provider.

"First Supplemental Indenture" means the First Supplemental Trust Indenture dated as of December 1, 2001 between the Authority and the Trustee.

"Fiscal Year" shall mean the period of twelve months beginning July 1 of each year or any other period of twelve (12) consecutive months selected by the City as its fiscal year.

"Fixed Rate" means the per annum interest rate on any 2007B Bond in the Fixed Rate Mode determined pursuant to Section 2.09(b) of the Third Supplemental Indenture.

"Fixed Rate Bond" means a 2007B Bond in the Fixed Rate Mode.

"Fixed Rate Mode" means the Mode during which the 2007B Bonds bear interest at the Fixed Rate.

"Fixed Rate Period" means for 2007B Bonds in the Fixed Rate Mode, the period from the Mode Change Date upon which the 2007B Bonds were converted to the Fixed Rate Mode to but not including the maturity date for the 2007B Bonds.

"Fourth Supplemental Indenture" means the Fourth Supplemental Trust Indenture dated as of May 1, 2008 between the Authority and the Trustee.

"FSA" shall mean Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof, and which shall constitute a Credit Facility Provider (as defined in the Security Leases) for purposes of the Security Leases.

"FSA Municipal Bond Insurance Policy" shall mean the insurance policies issued by FSA guaranteeing the scheduled payment of principal of and interest on the Series 2001 Bonds when due.

"Government Obligations" means obligations to the timely payment of which the full faith and credit of the United States of America is pledged.

"Holder" or "Owner" means the Registered Owner of any Debt.

"Indenture" means the Original Indenture, as amended or supplemented in accordance with the terms thereof at the time in question, including by the First Supplemental Indenture, the Second Supplemental Indenture (sometimes collectively referred to as the "Existing Indenture") and the Third Supplemental Indenture.

"Independent" means a Person who is not a City official or an employee of the City or a member, officer or employee of the Authority; provided, however, that the fact that such Person is retained regularly by or transacts business with the Authority or the City shall not make such Person an employee within the meaning of this definition.

"Interest Accrual Period" means the period during which a 2007B Bond accrual interest payable on the next 2007B Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last 2007B Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of

original authentication and delivery of the 2007B Bonds) to, but not including, the 2007B Interest Payment Date on which interest is to be paid. If, at the time of authentication of any 2007B Bond, interest is in default or overdue on the 2007B Bonds, such 2007B Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding 2007B Bonds.

"Interest Payment Date", in respect of a particular series of Debt, means the payment date of an installment of interest on the Debt of such series.

"Interest Period" means, for the 2007B Bonds in a particular Mode, the period of time that the 2007B Bonds bear interest at the rate (per annum) which becomes effective at the beginning of such period, and shall include a Daily Rate Period, a Weekly Rate Period, and a Fixed Rate Period.

"Investment Securities" shall mean and include any of the following if and to the extent the same are at the time legal for investment of Authority funds:

(a) Government Obligations;

(b) Government Obligations which have been stripped of their unmatured interest coupons and interest coupons stripped from Government Obligations (stripped securities are only permitted if they have been stripped by the federal agency that issued or guaranteed the Government Obligation);

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Bank System, Federal National Mortgage Association, Government National Mortgage Association, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration Debentures, General Services Administration, U.S. Maritime Administration, U.S. Housing and Urban Development, Federal Home Loan Mortgage Corporation, Student Loan Marketing Association, Resolution Funding Corporation, Export-Import Bank of the United States, or Farm Credit System;

(d) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any bank, trust company, savings and loan association, national banking association or other savings institution (including the Trustee and its affiliates), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or any successor federal deposit insurance corporation or entity;

(e) Repurchase agreements collateralized by securities described in subparagraphs (a), (b), or obligations described in (c) above which are backed by the full faith and credit of the United States Government with any registered broker/dealer subject to the Securities Investors' Protection Corporation or with any commercial bank (in either case, including the Trustee and its affiliates), provided that (1) a specific written repurchase agreement governs the transaction, (2) the securities are held free and clear of any lien by the Authority, the City, the Trustee (if the Trustee is not supplying the collateral) or an independent third party acting solely as agent for the Trustee (which shall be required if the Trustee is supplying the collateral), and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has a combined capital, surplus and undivided profits of not less than $25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures described in 31 CFR 306.1 et seq. or 31 CFR 350.0 et seq., in such securities is created for the benefit of the Trustee, ( 4) the repurchase agreement has a term of thirty days or less, or the Trustee or an independent third party acting solely as agent for the Trustee will value the collateral securities no less frequently than weekly, which securities shall be marked to market at current price plus accrued interest and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation, (5) the fair market value of the collateral securities is equal to at least 104% of the amount of the repurchase obligation, including principal and interest (if the securities used as collateral are Federal Home Loan Mortgage Corporation or Federal National Mortgage Association Securities, then the value of the collateral securities shall equal at least 105%), (6) the collateral was not acquired by the broker/dealer pursuant to a repurchase agreement or reverse repurchase agreement, and (7) a legal opinion of Counsel is delivered to the Trustee that the repurchase agreement complies with the Indenture, the guidelines under state law for legal investment of public funds and is a legal investment for the Authority;

(f) Reserved;

(g) Money market funds registered under the Federal Investment Company Act of 1944, whose shares are registered under the Federal Securities Act of 1933, and rated "AAAm-G" or "AAA-m" or "AAm" by S&P and if rated by Moody's rated "Aaa", "Aa1" or "Aa2" including, without limitation, the JPMorgan Money Market Mutual Funds or any other qualifying mutual fund 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;

(h) Commercial paper rated "Prime-1" or better by Moody's or "A-1" or better by S&P;

(i) Obligations rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

(j) Advance-Refunded Municipal Bonds;

(k) Tax-exempt obligations that are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies, or shares of investment companies that invest only in such obligations including, without limitation, the JPMorgan Money Market Mutual Funds or any other qualifying mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, or custodian or sub-custodian, 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;

(I) The Trustee's "cash sweep account" or other short term investment fund of the Trustee or its subsidiaries, the assets of which consist of other Investment Securities defined above; and

(m) Repurchase agreements with maturities beyond 30 days and investment agreements provided that they are approved by each bond insurer or other credit provider for the Debt.

"Land Acquisition and Related Costs" means, in connection with the construction of two new sports stadia for the Phillies and the Eagles, the acquisition of various parcels of land, the payment of certain relocation costs, and the performance of certain demolition and site work in connection therewith.

"Liquidity Facility" has the same meaning as the term Credit Facility as set forth herein and in the Security Leases, but which provides liquidity support for tenders of the 2007B Bonds as set forth in Section 3 .08(b) of the Third Supplemental Indenture.

"Liquidity Facility Purchase Account" means the account by that name created in Section 3.09(b) of the Third Supplemental Indenture.

"Liquidity Provider" means the issuer of any particular Liquidity Facility and its successors and assigns, as issuer.

"Liquidity Provider Bonds" means any 2007B Bonds purchased by the Liquidity Provider with funds drawn on or advanced under the Liquidity Facility.

"Long-Term Mode" means a Term Rate Mode or a Fixed Rate Mode.

"Mandatory Purchase Date" means: (i) with respect to a Commercial Paper Rate Bond, the first Business day following the last day of each Commercial Paper Rate Period with respect to such 2007B Bond, (ii) for 2007B Bonds in the Term Rate Mode, the first Business Day following the last day of each Term Rate Period, (iii) any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode), (iv) any Substitution Date, (v) the fifth Business Day prior to the Expiration Date (other than as a result of an automatic Termination Event), (vi) the date specified by the Trustee following its receipt of a Notice of Termination, which date shall be a

Business Day not less than 20 days after the Trustee's receipt of such Notice of Termination, but and in no event later than the fifth (5th) Business Day preceding the termination date (or the date no further purchases shall be made by the Liquidity Provider) specified in such Notice of Termination and (vii) for 2007B Bonds in the Daily Mode or Weekly Mode, any Business Day specified in a written notice by the Authority not less than 20 days after the Trustee's receipt of such notice. All such Mandatory Purchase Dates are subject to and shall conform with the provisions of Section 3.07 of the Third Supplemental Indenture.

"Maximum Rate" means the rate of interest of 10% per annum, and with respect to Liquidity Provider Bonds, the rate specified in the Liquidity Facility and in no event shall such rate(s) exceed the highest rate allowed by applicable law.

"Mode" means, as the context may require, the ARS Mode, the CP Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode or the Fixed Rate Mode.

"Mode Change Date" means: (i) with respect to the 2007B Bonds in a particular Mode, the day on which a New Mode for the 2007B Bonds begins; and (ii) the day upon which the 2007B Bonds in the Term Rate Mode change to a new Term Rate Period.

"Mode Change Notice" means the written notice from the Authority to the other Notice Parties of the Authority's intention to change the Mode with respect to the 2007B Bonds.

"Moody's" means Moody's Investors Service, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, with the approval of the City, by written notice to the Trustee.

"New Mode" means another Mode than the Current Mode.

"Notes" means the Authority's Lease Revenue Notes, 2001 Series A (Federally Taxable) issued to finance the Project.

"Note Redemption Account" means the account so designated which is established pursuant to Section 6.02 of the Original Indenture.

"Notice of Termination" has the meaning specified in the initial Liquidity Facility or, if an Alternate Liquidity facility shall be in effect, any notice to the Trustee from the provider of such Alternate Liquidity Facility of its intent to terminate such Alternate Liquidity Facility.

"Notice Parties" means the Trustee, the Tender Agent, the Remarketing Agent, if any, the Broker-Dealer, if any, the Paying Agent, the Auction Agent, the Credit Provider, the Liquidity Provider and the Authority.

"Obligations" means the Debt and Credit Agreement Obligations.

"One-Month LIBOR" shall mean the offered rate (rounded up to the next highest one one-thousandth of one percent (0 .001%)) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBORO1 Page 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.

"Original Indenture" means the Trust Indenture, dated as of April 1, 2001 between the Authority and the Trustee.

"Original Practice Facility Prime Lease" means a Prime Lease dated April 20, 2000, as it may be amended and supplemented, pursuant to which under certain conditions, the Authority will lease to the City the Practice Facility Premises, under and subject to a Lease and Development Agreement between the Authority and Philadelphia Eagles Development L.P.

"Outstanding", in connection with Debt means, as of the time in question, all Debt which has been authenticated and delivered under the Indenture, except:

(a) Debt cancelled or required to be cancelled, including pursuant to Section 2.08 of the Original Indenture;

(b) Debt for the discharge, cancellation, payment, redemption, retirement or purchase of which, moneys or Government Obligations the principal of and interest on which, when due, will provide sufficient moneys to fully pay such Debt, shall have been or shall concurrently be deposited with the Trustee in accordance with Article XIII of the Original Indenture or Section 14.02 of the Original Indenture; provided that, if such Debt is being redeemed prior to maturity, any required notice of redemption shall have been given or provision satisfactory to the Trustee shall have been made therefor, and that if such Debt is being purchased, there shall be a firm commitment for the purchase and sale thereof;

(c) Debt in substitution for which other Debt has been authenticated and delivered, including pursuant to Article II of the Original Indenture;

(d) For purposes of any consent or other action to be taken by the Holders of a specified percentage of Debt under the Indenture, Debt held by or for the account of the Authority or the City, or any Person controlling, controlled by or under common control with the Authority or the City; and

(e) Debt for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Trustee in the Note Redemption Account.

"Paying Agent" means, with respect to the 2007 Bonds, any national banking association having trust powers, bank and trust company or trust company appointed as such by the Authority and accepting such appointment for the time being pursuant to Article VI of the Fifth Supplemental Indenture. The initial Paying Agent is The Bank of New York Trust Company, N.A., a national banking association having a corporate trust office in Philadelphia, Pennsylvania.

"Payment Office" means the office of the Trustee for the payment of Additional Debt.

"Person" means an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, any unincorporated organization, a governmental body, any other political subdivision, municipality or municipal authority or any other group or entity.

"Phillies" means The Phillies, a Pennsylvania limited partnership.

"Phillies Ground Lease" means a Ground Lease Agreement dated as of April 1, 2001, as it may be amended and supplemented, pursuant to which the City leases to the Authority various parcels of land in connection with the development of a new baseball park for the Phillies.

"Phillies Leaseback" means a Lease-Back Lease Agreement dated as of April 1, 2001, as it may be amended and supplemented, pursuant to which the City leases back to the Authority the Phillies Premises.

"Phillies Leases" means the Phillies Ground Lease, the Phillies Prime Lease and the Phillies Leaseback.

"Phillies Premises" means the various parcels of land leased to the Authority pursuant to the Phillies Ground Lease, as improved, including by a new baseball park.

"Phillies Prime Lease" means a Prime Lease dated as of April 1, 2001, as it may be amended and supplemented, pursuant to which the Authority leases back to the City the Phillies Premises.

"Phillies Sublease" means a Sublease and Development Agreement pursuant to which the Authority will lease all or a portion of the Phillies Premises to the Phillies.

"Practice Facility" means the newly-constructed Eagles practice facility located at the northwest corner of Broad Street and Pattison Avenue, Philadelphia.

"Practice Facility Lease Agreement" means a Practice Facility Lease Agreement entered into simultaneously with the Original Practice Facility Prime Lease pursuant to which, subject to certain conditions, the City leased back to the Authority the Practice Facility Premises.

"Practice Facility Premises" shall have the meaning ascribed to it in the Original Practice Facility Prime Lease.

"Practice Facility Prime Lease" means an Amended and Restated Prime Lease, as it may be amended and supplemented, pursuant to which, under certain conditions, the Authority will lease to the City the Practice Facility Premises, under and subject to a Lease and Development Agreement between the Authority and Philadelphia Eagles Development L.P.

"Project" means the financing or refinancing by the Authority of (a) the costs of the Rehabilitation; (b) under certain limited circumstances, the Authority's Commerce Bank Reimbursement Obligation; (c) the Land Acquisition and Related Costs; (d) the funding of reserves, if any; (e) capitalized interest; and (f) the payment of costs of issuance.

"Project Budget" means a statement of the estimated Costs of the Project or any Additional Projects, setting forth the Costs in such categories and reasonable detail as shall be satisfactory to the Authority.

"Proper Charge" means amounts permitted under the Act which include costs of issuance of Debt, including discount on Debt, attorneys' fees, printing costs, fees and expenses of the Authority and the Trustee, and the cost of any feasibility studies and similar expenses in connection with the Project or any Additional Projects.

"Purchase Date" means (i) for a 2007B Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner of said 2007B Bond pursuant to the provisions of Section 3.01 of the Third Supplemental Indenture, and (ii) any Mandatory Purchase Date.

"Purchase Fund" means the fund of that name created in Section 3.09 of the Third Supplemental Indenture.

"Purchase Price" means an amount equal to the principal amount of any 2007B Bonds purchased on any Purchase Date, plus accrued interest to the Purchase Date (unless the Purchase Date is a 2007B Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

"Rate Determination Date" means any date on which the interest rate on any subseries of 2007B Bonds shall be determined, which, (i) in the case of the CP Mode, shall be the first day of an Interest Period; (ii) in the case of the Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) the 2007B Bonds become subject to the Daily Mode; (iii) in the case of the initial conversion to the Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date, and thereafter, shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next preceding such Wednesday; (iv) in the case of the Term Rate Mode, shall be a Business Day no earlier than fifteen (15) Business Days and no later than the Business Day next preceding the first day of an Interest Period, as determined by the Remarketing Agent; and (v) in the case of the Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

"Rate Period" means an ARS Rate Period (as defined in Exhibit D hereto), a Commercial Paper Rate Period, a Daily Rate Period, a Weekly Rate Period, a Term Rate Period or a Fixed Rate Period.

"Rating Agency" shall mean, as of any date, each nationally recognized rating service that shall have assigned and have in effect as of such date a rating with respect to any of the Debt.

"Rating Confirmation Notice" means a written notice from each of Moody's, S&P or Fitch confirming that its then-current rating, if any, on either the 2007A Bonds or the 2007B Bonds, as applicable, will not be lowered, suspended or withdrawn (other than a withdrawal of a short-term rating of the 2007B Bonds upon a change to a Long-Term Mode) as a result of the action proposed to be taken.

"Rebate Fund" means the fund so designated which is established pursuant to Section 6.10 of the Original Indenture.

"Record Date" means, with respect to the 2007A Bonds, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding each 2007A Interest Payment Date; and, with respect to 2007B Bonds in (i) a Short-Term Mode, the last Business Day before a 2007B Interest Payment Date; and (ii) a Long-Term Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each 2007B Interest Payment Date.

"Redemption Price" where used with respect to a Debt obligation which is not a Capital Appreciation Bond, means the principal amount of such obligation plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture, and with respect to any Capital Appreciation Bond, the Accreted Value of such bond on the redemption date plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture.

"Rehabilitation" means the rehabilitation of Veterans Stadium, including its major structural, mechanical, electrical and other systems, and the other improvements forming part of the Veterans Stadium Premises, as the same has been approved pursuant to an Ordinance of the City Council of the City (Bill No. 000706) duly signed by the Mayor on December 28, 2000, as it may be further amended hereafter by resolution of the City Council of the City. The term "Rehabilitation" shall also mean and include all amendments to, modifications of, and change orders affecting the rehabilitation work set forth in said Ordinance, as said Ordinance may be amended hereafter.

"Reimbursement Agreement" means a reimbursement agreement between the Authority and a Credit Provider or a Liquidity Provider related to a Credit Facility for the 2007B Bonds.

"Remarketing Agent" means any investment banking fund appointed by or which may be substituted in its place as provided in Section 7.01 of the Third Supplemental Indenture.

"Remarketing Agreement" means any Remarketing Agreement relating to the 2007B Bonds by and between the Authority and the Remarketing Agent or any similar agreement between the Authority and the Remarketing Agent, as it may be amended or supplemented from time to time in accordance with its terms.

"Remarketing Proceeds Account" means the account of that name within the Purchase Fund created in Section 3.09(a) of the Third Supplemental Indenture.

"S&P" means Standard & Poor's Rating Services, a division of McGraw-Hill Companies, Inc., its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, with the approval of the City, by written notice to the Trustee.

"Second Supplemental Indenture" means the Second Supplemental Indenture, dated as of June 30, 2004, between the Authority and the Trustee.

"Security Leases" means the Veterans Stadium Sublease, the Eagles Prime Lease and the Phillies' Prime Lease, collectively with any other lease or sublease hereafter pledged to secure the Obligations.

"Series 2007 Bonds" means the 2007 Series A Bonds and the 2007 Series B Bonds.

“Seventh Supplemental Indenture” means the Seventh Supplemental Trust Indenture dated as of June 1, 2014 between the Authority and the Trustee.

"Short-Term Mode" means the Daily Mode or the Weekly Mode.

"Sinking Fund Installment Date" means October 1 of the years in which the Trustee is required to redeem Bonds of any series from the Bond Redemption Account or Accounts of the Bond Fund for such series established pursuant to the Indenture.

“Sixth Supplemental Indenture” means the Sixth Supplemental Trust Indenture dated as of May 1, 2014 between the Authority and the Trustee.

"Substitution Date" means the date upon which an Alternate Credit Facility or Alternate Liquidity Facility is scheduled to be substituted for the Credit Facility or Liquidity Facility then in effect; provided however that no such Substitution Date shall occur in connection with the delivery of an Alternate Credit Facility pursuant to Section 3.08(d)(v) of the Third Supplemental Indenture.

"Supplemental Indenture" shall mean any indenture amending or supplementing the Indenture which may be entered into in accordance with the provisions of the Indenture.

"Team Leases" means the lease agreements between the City and the Phillies, and the City and the Eagles relating to Veterans Stadium.

"Team Subleases" means the Phillies Sublease, together with the Eagles Sublease.

"Tender Agent" means the commercial bank, trust company or other entity which may from time to time be appointed to serve as Tender Agent. Until such time as an alternate Tender Agent is appointed, the Tender Agent shall be the Trustee.

"Tender Notice" means a notice delivered by Electronic Means or in writing that states (i) the principal amount of such Bond to be purchased pursuant to Section 3.01 of the Third Supplemental Indenture, (ii) the Purchase Date on which such 2007B Bond is to be purchased, (iii) applicable payment instructions with respect to the 2007B Bonds being tendered for purchase and (iv) an irrevocable demand for such purchase.

"Tender Notice Deadline" means (i) during the Daily Mode, 9:00 A.M. on any Business Day and (ii) during the Weekly Mode, 5:00P.M. on the Business Day seven days prior to the applicable Purchase Date.

"Term Rate" means the per annum interest rate for the 2007B Bonds in the Term Rate Mode determined pursuant to Section 2.09(a) of the Third Supplemental Indenture.

"Term Rate Mode" means the Mode during which the 2007B Bonds bear interest at the Term Rate.

"Term Rate Period" means the period from (and including) the Mode Change Date or the date of initial issuance of the 2007B Bonds, as applicable, to (but excluding) the last day of the first period that the 2007B Bonds shall be in the Term Rate Mode as established by the Authority for the 2007B Bonds pursuant to Section 2.12(a)(i) of the Third Supplemental Indenture and, thereafter, the period from (and including) the beginning date of each successive Interest Period selected for the 2007 Bonds by the Authority pursuant to Section 2.09(a) while it is in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in this Third Supplemental Indenture, an Interest Period for the 2007B Bonds in the Term Rate Mode must be at least 180 days or any integral multiple of six (6) months in length.

"Third Supplemental Indenture" means the Third Supplemental Indenture, dated as of October 1, 2007, between the Authority and the Trustee.

"Trustee" with respect to the 2007 Bonds means The Bank of New York Trust Company, N.A. (successor to J.P. Morgan Trust Company, National Association), as trustee.

"2007 Bond Insurer" means Financial Guaranty.

"2007 Bond Insurance Policy" means the municipal bond new insurance policy issued by the 2007 Bond Insurer that guarantees the payment of principal of and interest on the 2007 Bonds. The 2007 Bond Insurance Policy constitutes a "Credit Facility."

"2007 Project" means a project undertaken by the Authority at the request of the City consisting of (a) the advance refunding of all or a portion of the 2001B Bonds; and (b) the payment of certain costs of issuance.

"2007A Bonds" means the Authority's Fixed Rate Lease Revenue Refunding Bonds, 2007 Series A.

"2007B Bonds" means the Authority's Variable Rate Lease Revenue Refunding Bonds, 2007 Series B.

"2007A Interest Payment Date" means each April 1 and October 1, commencing April 1, 2008, and date of maturity or earlier redemption of the 2007A Bonds.

"2007B Interest Payment Date" means each date on which interest on the 2007B Bonds is to be paid and is: (i) with respect to the 2007B Bonds in the Daily Mode or Weekly Mode, the first Business Day of each month; (ii) (without duplication as to any Interest Payment Date listed above) any Mode Change Date, other than a change between a Daily Mode and a Weekly Mode, and each Maturity Date; and (iii) with respect to any Liquidity Provider Bonds, the day set in the Reimbursement Agreement.

"Variable Rate Mode" means the Short-Term Mode or the Term Rate Mode.

"Weekly Mode" means the Mode during which the 2007B Bonds bear interest at the Weekly Rate.

"Weekly Rate" means the per annum interest rate on the 2007B Bonds in the Weekly Mode determined pursuant to Section 2.08(b) of the Third Supplemental Indenture.

"Weekly Rate Period" means the period during which a 2007B Bond in the Weekly Mode shall bear a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except the first Weekly Rate Period which shall be from the Mode Change Date to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date or 2007B Maturity Date.

## THE ORIGINAL INDENTURE

### TRUST ESTATE

The Authority, in order to secure the payment of the principal of, and premium, if any, and interest on, all Debt issued and outstanding under the Indenture according to its tenor and effect and the performance and observance by the Authority of all the covenants expressed or implied therein and in said Debt assigns and pledges to the Trustee, its successors in the trust and its assigns forever, and grants to the Trustee, its successors in trust and its assigns forever, a presently existing and continuing security interest in, assignment and pledge of, and a continuing lien on, each and all of the following: (i) the Veterans Stadium Sublease and the rights, title and interest (but not the obligations) of the Authority under and pursuant to the Veterans Stadium Sublease, including the right to receive all payments, revenues and receipts thereunder (excepting only the rights reserved to the Authority under Section 4.3 and Articles VII, IX and XIX of the Veterans Stadium Sublease and amounts payable to the Trustee for its fees, expenses and indemnities); and (ii) the rights, title and interest of the Authority in and to all payments, revenues and receipts under Section 4.l(b) of the Eagles Prime Lease (excepting the right to certain amounts payable to the Authority for insurance premiums and any rebate liability, and the Trustee for its fees, expenses and indemnities, all whether under Sections 4.l(b) or 18.2 of the Eagles Prime Lease) and the rights and remedies associated with such payments; and (iii) the rights, title and interest of the Authority in and to all payments, revenues and receipts under Section 4.l(a) of the Phillies Prime Lease (excepting the right to certain amounts payable to the Authority for insurance premiums and any rebate liability, and the Trustee for its fees, expenses and indemnities, all whether under Section 4.l(a) or 18.2 of the Phillies Prime Lease) and the rights and remedies associated with such payments; and (iv) all funds and accounts established under the Indenture (other than the Rebate Fund and any other fund or account established hereafter and specifically excluded from the pledge), all instruments and obligations in which the moneys in such funds and accounts may from time to time be invested and all interest and other investment earnings thereon and proceeds thereof; provided that amounts on deposit in the Note Redemption Account shall be for the sole and exclusive benefit of the Holders of the Notes and provided further, that the Construction Funds shall not be pledged to secure any Debt other than the Notes unless otherwise expressly provided in a Supplemental Indenture (items (i) through (iv) are collectively referred to as the "Trust Estate"), in

trust, for the equal and ratable benefit and security of all present and future Holders of the Debt issued and to be issued under the Indenture, without preference, priority or distinction as to lien or otherwise (except as otherwise specifically provided therein) of any one Debt obligation over any other Debt obligation upon the terms and subject to the conditions hereinafter set forth.

## ISSUE OF ADDITIONAL DEBT

### Issue of Additional Debt

The Authority may issue one or more series of Additional Debt, which shall be on parity with the Notes as to the Trust Estate except as expressly provided in the Original Indenture or in a Supplemental Indenture, in such form and denominations, bearing interest on such dates and at such rates, be payable at such times, and having such provisions for redemption, transfer and exchange from time to time as shall be provided in a Supplemental Indenture to pay the Cost of undertaking or completing the Project or an Additional Project and the Cost of refunding all or part of the Outstanding Debt under the Indenture; provided that no Additional Debt shall be issued to refinance the Commerce Bank Reimbursement Obligation unless the Practice Facility Lease Agreement is pledged as part of the Trust Estate. The Trustee shall authenticate and deliver such Additional Debt at the written request of the Authority, but only upon compliance with the requirements set forth in subsection (a) below and, to the extent applicable, with the further requirements of subsections (b), (c) and (d) below. In the event that any Additional Debt is issued in the form of commercial paper, it will be designated as a new series and will not constitute part of the Notes. The Authority also reserves the right to issue additional debt subordinate to the lien and pledge created in the Indenture as security for the Obligations on such terms as shall be provided in a Supplemental Indenture subject to the approval of the City pursuant to applicable law.

(a) General Requirements. In all cases, the following shall be delivered to the Trustee:

(i) executed counterparts of a Supplemental Indenture and, if necessary, an amendment to one or more of the Security Leases, and other such documents, including an additional lease or sublease between the Authority and the City, as are necessary or appropriate in order to provide, inter alia, for the issuance of the Additional Debt and the security therefor, the application of Additional Debt proceeds and other available moneys, and the payment of the principal or Redemption Price of and interest on the Additional Debt, together with appropriate Authority and City certificates to the effect that the foregoing documents have been duly and validly authorized, executed and delivered by the Authority and the City;

(ii) Certified Resolutions of the Authority and Ordinances of the City approving the issuance of the Additional Debt and the execution and delivery of all documents and the taking of all actions which are necessary or appropriate in connection with the issuance of the Additional Debt;

(ii) if necessary, certified Ordinances of the City approving any amendments to the Security Leases or approving any additional lease or sublease;

(iv) an opinion or opinions of Counsel, addressed to the Trustee, to the effect that: (A) the Additional Debt has been duly issued for a permitted purpose under Section 3.02 of the Original Indenture, (B) all consents or approvals required to be obtained from any Regulatory Body for the issuance of the Additional Debt have been obtained, (C) the issuance of the Additional Debt and execution and delivery of related documents will not constitute a breach or default on the part of the Authority or the City under, as applicable, any related party's articles of incorporation and by-laws, any applicable laws or regulations, court orders or rulings of Regulatory Bodies to which the Authority or the City is subject or any agreements to which the Authority or the City is a party or to which the Authority's properties are subject, (D) all documents delivered by the Authority and the City in connection with the issuance of the Additional Debt have been

duly and validly authorized, executed and delivered and such execution and delivery and all other actions taken by the Authority in connection with the issuance of the Additional Debt have been duly authorized by all necessary corporate actions, and (E) all conditions precedent to the issuance of the Additional Debt pursuant to the Indenture have been satisfied;

(v) an opinion of Bond Counsel that the issuance of such Additional Debt will not adversely affect the exclusion from gross income of interest on the Debt Outstanding (to the extent any Debt Outstanding was issued on a tax-exempt basis); and

(vi) a certificate of either or both the Authorized Representative and the Authority dated as of the date of issuance that: (A) upon the issuance of the Additional debt, no Event of Default under Section 9.01 of the Original Indenture has occurred and is continuing as of the date of such certificate; (B) the Authority has full power and authority to perform its duties and obligations under the Indenture and under the Debt; (C) the Authority is in compliance with the covenants set forth in the Indenture as of the date of such certificate; (D) the revenues to be received from the assets comprising the Trust Estate, together with moneys available under the Indenture, will be sufficient to timely and fully amortize the Outstanding Debt, subject to the terms and conditions of the Security Leases; (E) the aggregate amount of Obligations outstanding is not in excess of the total amounts authorized by the Security Leases and all applicable resolutions of the Authority; and (F) the Security Leases and the ordinances of City Council of the City approving the Security Leases and authorizing the Project are in full force and effect.

(b) Additional Requirements- Additional Projects. There shall be delivered to the Trustee in the case of Additional Debt issued to provide funds for the Cost of undertaking or completing an Additional Project, if necessary, an Ordinance of the City approving the Additional Project.

(c) Additional Requirements -Refunding Debt. The following shall be delivered to the Trustee in connection with the issuance of Additional Debt for the purpose of a refunding of some or all Obligations:

(i) executed counterparts of such documents as are necessary or appropriate for the purposes of the refunding, including, if appropriate, an escrow agreement or Supplemental Indenture providing for the deposit and application of funds for the refunding and irrevocable instructions from the Authority with respect to the redemption of refunded Debt;

(ii) a Certified Resolution of the Authority and an Ordinance of the City, if necessary, authorizing the refunding, including, without limitation thereto, the redemption of refunded Debt; and

(iii) an Authority certificate and City certificate setting forth in reasonable detail the Costs of the refunding and demonstrating the adequacy of available funds for the payment of such Costs and, unless all refunded Debt is to be redeemed or otherwise retired on the date of settlement for the Additional Debt, such certificates shall be accompanied by such schedules, verified as to mathematical accuracy by a Certified Public Accountant, as are necessary to demonstrate the adequacy of the proceeds of the Additional Debt and other available funds deposited for the refunding and the income thereon for the purpose of paying, when due, the principal or Redemption Price of and interest on the refunded Debt.

(c) Additional Requirements -Multipurpose Issue. In the case of Additional Debt issued for more than one of the purposes described in subsections (b) and (c) above, the requirements of each applicable subsection shall be met.

## CONSTRUCTION OF ADDITIONAL PROJECTS

**Additional Projects**

If the City shall deem it necessary or advisable that an Additional Project or Additional Projects be undertaken, the City may request the Authority to provide moneys for all or part of the Costs thereof. Any such request shall be in writing, shall be signed by the Director of Finance of the City or his designee, shall set forth the amount requested and shall be accompanied, if necessary, by appropriate ordinance of the City Council authorizing the Additional Project and an increase, if necessary, of the rentals due under one or more of the Security Leases or the imposition of rentals payable by the City pursuant to an additional lease or sublease, to pay the debt service of and any other costs or expenses related to any obligation incurred by the Authority for the Additional Projects.

**Additional Debt**

Upon receipt of a request of the City, accompanied by required documents as provided in the Indenture, the Authority may, but shall have no obligation to, provide all or any part of the amounts requested by issuance and sale of Additional Debt, as provided in the Indenture.

**Completion of Additional Projects**

The Authority will cause the City to covenant to proceed with reasonably deliberate dispatch to complete any Additional Projects involving construction for which Additional Debt is issued, in accordance with the plans and specifications therefor.

## CONSTRUCTION FUND

**Establishment of Construction Fund**

The Trustee shall establish and maintain a Construction Fund for the Rehabilitation and the Land Acquisition and Related Costs and any Additional Project undertaken by the Authority and financed by the issuance of Additional Debt, which shall be held separate and apart from all other funds and accounts established under the Indenture and from all other moneys of the Trustee. The Trustee may establish separate accounts within the Construction Fund for separate series of Debt or separate components of a project. No disbursements of funds held from time to time in the Construction Fund shall be made except as permitted in Article V of the Original Indenture. The Trustee shall invest the moneys on deposit in the Construction Fund pursuant to Section 7.02 of the Original Indenture and shall apply the income from such investments as provided therein.

**Payments From Construction Fund**

(a) The Trustee shall make payments from the Construction Fund to the City or its contractors, subcontractors, materialmen or workmen in connection with the Rehabilitation in accordance with the requirements of Section 9.4 of the Veterans Stadium Sublease. The Trustee shall make the applicable disbursements within three (3) Business Days of the submission of a requisition substantially in the form attached to the Original Indenture as Exhibit D-1 and made a part thereof. The Trustee shall make payments from the Construction Fund to the City, and such Persons as approved by the City, including the Authority, in connection with the Land Acquisition and Related Costs in accordance with the requirements of the Eagles Prime Lease and the Phillies Prime Lease as provided in a requisition substantially in the form attached to the Original Indenture as Exhibit D-2 and made a part thereof. The Trustee shall make the applicable disbursements within three (3) Business Days of the submission of such requisition.

The Trustee shall make payments from the Construction Fund in connection with the Rehabilitation upon the prior receipt of a requisition substantially in the form attached to the Original Indenture as Exhibit D-1 and made a part thereof, signed on behalf of the City by a Person designated for such purpose in certificates of the City filed with the Trustee. The Trustee shall make payments from the Construction Fund in connection with the Land Acquisition and Related Costs upon the prior receipt of a requisition substantially in the form attached to the Original Indenture as Exhibit D-2 and made a part thereof, signed on behalf of the City by a Person designated for such purpose in certificates of the City filed with the Trustee, or by such other Person approved in writing by the City, including the Authority. Withdrawals for the purchase of land that constitutes part of the Land Acquisition and

Related Costs shall not be required to be done through use of the form of requisition and may, instead, be effected by written request of either the City or the Authority delivered to the Trustee.

(b) The Trustee shall make payments from the Construction Fund to the Authority, the City or any other Person in connection with any Additional Project upon the prior receipt of a requisition substantially in the form attached to the Original Indenture as Exhibit D-3 and made a part thereof, signed on behalf of the City by a Person designated for such purpose in certificates of the City filed with the Trustee, or by such other Person approved in writing by the City, including the Authority. The Trustee shall make the applicable disbursements within three (3) Business Days of the submission of the requisition substantially in the form attached to the Original Indenture as Exhibit D-3 and made a part thereof.

(c) The Trustee agrees that it shall hold all documents, affidavits, certificates and opinions delivered to the Trustee pursuant to paragraphs (a) and (b) above for a period of at least two years after the date of completion of the Project or Additional Project. The Authority shall have the right to inspect such documents, affidavits, certificates and opinions at the Principal Corporate Trust Office of the Trustee at reasonable times and upon reasonable notice. The Trustee shall provide copies of such documents, affidavits, certificates and opinions to the Authority at its request and expense.

(d) Whenever disbursements are to be made to reimburse the City for advances or to discharge indebtedness of the City, the requisition shall relate to the underlying obligation for which the City is being reimbursed or for the payment of which the indebtedness was incurred.

**Procedure Upon Completion of the Rehabilitation, the Land Acquisition and Related Costs, and any Additional Project**

Within a reasonable time after substantial completion of the Rehabilitation, the Land Acquisition and Related Costs, or any Additional Project, the Authority shall cause the City or such other Person as designated in writing by the Authority or the City to the Trustee, to deliver to the Trustee a certificate of an Authorized Representative, stating the date of substantial completion and the sum, if any, to be reserved in the Construction Fund for the payment of any unpaid Costs of such project.

Upon delivery of such certificate to the Trustee, any amount remaining in the Construction Fund and not reserved for the payment of Costs of the Rehabilitation, the Land Acquisition and Related Costs or an Additional Project shall be deposited to a separate subaccount of the Sinking Fund Account or such other account as directed in a Supplemental Indenture and used for the payment of (a) such Debt as may be selected by an Authorized Representative or (b) the payment of fees and expenses relating to Debt.

**Nature of the Rehabilitation**

As and to the extent provided in the Veterans Stadium Sublease, the various components comprising the Rehabilitation are subject to modification and/or elimination.

**Compliance with Laws, etc.**

The Authority will comply with all present and future laws, acts, rules, regulations, orders and requirements lawfully made relating to any acquisition, construction or operation undertaken pursuant to the Indenture; provided that the Authority shall have the right to contest or appeal from such laws, regulations, rules, orders and requirements.

## REVENUES OF THE AUTHORITY, AND THE APPLICATION THEREOF TO FUNDS AND ACCOUNTS

**Trust Estate to be Paid Over to Trustee**

The Authority, by execution and delivery of the Indenture, assigns, transfers and sets over all right, title and interest of the Authority in and to the Trust Estate and all rentals and other amounts payable thereunder to the Trustee, IN TRUST, to be held and applied pursuant to provisions of the Indenture for the benefit of the Holders of the Debt. Pursuant to the Indenture, the Authority pledges to the Trustee the aforesaid Trust Estate as security for the

performance of any obligations under the Indenture. The pledge made by the Indenture shall be valid and binding from the time such pledge is made, and the covenants and agreements set forth in the Indenture to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of the Debt, all of which, regardless of their respective times of issue and maturity, shall be of equal rank, without preference, priority or distinction of any Obligation over any other Obligation, except as expressly provided therein or permitted by the Indenture. The Trust Estate shall immediately be subject to the lien of the pledge without any physical delivery thereof or further act. Pursuant to the assignment of the Authority's rights under the Security Leases, those amounts payable thereunder which are pledged to the Trustee under the Indenture shall be paid directly to the Trustee by the City. Upon receipt of any amounts constituting the Trust Estate or other payments under the Indenture (except proceeds of Additional Debt) the Trustee shall deposit the same in the Sinking Fund Account, unless otherwise provided in the Original Indenture or in a Supplemental Indenture.

**Creation and Application of the Note Redemption Account**

There is created and established pursuant to the Original Indenture with the Trustee an account to be designed the "Note Redemption Account" which shall be held by the Trustee solely for the benefit of the Holders of the Notes.

**Procedure When Funds Are Sufficient to Pay All Debt**

If at any time the amounts held by the Trustee in the funds and accounts established under Article VI of the Original Indenture are sufficient to pay principal and interest on all Debt then Outstanding at maturity or by prior redemption, together with any amounts due the Trustee, the Trustee shall notify the Authority to that effect and thereafter the Trustee shall apply the amounts in the funds and accounts established under Article VI of the Original Indenture to the payment of such principal and interest and neither the City nor the Authority shall be required to pay over any further amounts unless and until it shall appear that there is a deficiency in the funds held by the Trustee under Article VI. If the Trustee has applied such funds to pay the full principal of and interest due on the Debt and any other incidental expenses incurred to make such payment, the Trustee shall transfer any remaining funds to the City.

**Moneys to Be Held for All Holders With Certain Exceptions**

Moneys and investments in the various funds and accounts established under the Indenture shall, until applied as provided with respect to the fund in question, be held in trust by the Trustee for the equal and ratable benefit and security of the Holders of all Outstanding Debt, except: (i) the Note Redemption Account shall be held for the benefit of the Holders of the Notes only, (ii) any bond redemption fund established for any series of Debt shall be held for the benefit of the Holders of Debt of that series only, (iii) the Rebate Fund shall be held for the purposes set forth in Section 6.10 of the Original Indenture, (iv) the Construction Fund shall not secure any Debt other than the Notes, except as otherwise expressly provided in a Supplemental Indenture and (v) any other fund or account established hereafter and not pledged shall be held for the purposes set forth in connection with its establishment.

**Rebate Fund**

The Trustee shall establish a fund designated the "Rebate Fund" with appropriate subaccounts for each series of tax-exempt Debt; provided that the Trustee shall only be required to establish the Rebate Fund on its books at such time that it is notified in writing by the City or the Financial Consultant at the request of the City that there is a Rebate Amount (as defined herein). Any provision of the Indenture to the contrary notwithstanding, amounts credited to the Rebate Fund shall be free and clear of any lien under the Indenture.

The Authority covenants to comply with the rebate requirements set forth in Section 148(f) of the Code.

The Authority shall cause the City, at its expense, to engage and furnish information to a Financial Consultant to calculate at the times required by Section 148(f) of the Code the rebate amount computed in the manner prescribed by Section 148(f) of the Code (the "Rebate Amount") with respect to any Debt the interest on which is excluded from gross income pursuant to Section 103(a) of the Code. The Trustee shall make its records available to the City and its Financial Consultant during regular business hours and upon reasonable prior written notice. The Authority shall cause the City to cause its Financial Consultant to timely notify the Trustee in writing of

the amount of the Rebate Amount determined by such Financial Consultant. If the amount then on deposit in the Rebate Fund is in excess of the Rebate Amount as determined by the Financial Consultant, the Trustee shall forthwith pay that excess amount to the City. If the amount then on deposit in the Rebate Fund is less than such Rebate Amount, the Authority shall cause the City to, within five days after receipt of the Financial Consultant's determination thereof, pay to the Trustee for deposit in the Rebate Fund an amount sufficient to cause the Rebate Fund to contain an amount equal to such Rebate Amount. If the City does not pay that required amount within five days after receipt of the Financial Consultant's determination of the Rebate Amount, the Trustee shall promptly transfer that amount from the Construction Fund to the Rebate Fund to the extent there are monies available in the Construction Fund. If the City shall fail to engage a Financial Consultant as required under the Indenture, the Trustee may (but shall not be required to) engage a Financial Consultant at the City's expense for the purposes thereof, in which case (i) the Trustee shall notify, or cause the Financial Consultant to notify, the City in writing of any determination of the Financial Consultant with respect to the Rebate Amount, and (ii) the Authority shall cause the City to pay the Trustee any amounts necessary to make the required deposits to the Rebate Fund within five days after the Trustee's or the Financial Consultant's notification to the City, and to reimburse the Trustee for any fees and expenses incurred in engaging a Financial Consultant. The Trustee, acting on behalf of the Authority, shall pay to the United States from the monies then on deposit in the Rebate Fund the amount set forth in written directions from the City. Within 60 days after the payment in full of a particular issue of tax-exempt Debt, the Trustee shall pay to the United States from the monies then on deposit in the Rebate Fund the amount set forth in written directions from the City which shall equal 100% of the Rebate Amount earned from the date of the original delivery of such Debt to the date of such payment (less the Rebate Amount if any, previously paid to the United States with respect to such Debt pursuant to Section 6.10 of the Original Indenture) and any monies remaining in the particular subaccount for such issue of Debt of the Rebate Fund following such payment shall be paid to the City. All computations of the Rebate Amount pursuant to Section 6.10 of the Original Indenture with respect to a particular issue shall treat the amount or amounts, if any, previously paid to the United States pursuant to Section 6.10 of the Original Indenture with respect to such issue as amounts on deposit in the Rebate Fund. A copy of all notices sent under the Indenture to the City by the Financial Consultant shall also be sent to the Trustee.

The Trustee shall keep all records of the computations received pursuant to Section 6.10 of the Original Indenture.

If all the gross proceeds (within the meaning of Section 148(f) of the Code) of a particular series of Debt, together with the gross proceeds of any other Debt treated as part of the same issue for purposes of Section 148(f) of the Code, are not subject to rebate because of an exception thereto, then the provisions of Section 6.10 of the Original Indenture shall not be applicable to the investment of original proceeds of such series in the Construction Fund and the City shall not be required to engage a Financial Consultant or otherwise comply with the foregoing provisions of Section 6.10 of the Original Indenture; provided that the City shall remain responsible to determine the Rebate Amount, if any, and to cause to be paid to the Trustee for deposit in the Rebate Fund and payment to the United States such amount, if any, at such times as may be necessary to comply with the requirements of Section 148(f) of the Code with respect to the particular series of Debt.

**Reports By Trustee**

The Trustee shall furnish to the Authority, within 20 days after the end of each month, a report on the status of each of the funds and accounts within funds established under Article VI of the Original Indenture and the Construction Fund, showing at least the balance in each such fund and account as of the last day of the preceding month, the deposits to (including interest on investments) and the disbursements from each such fund and account and the dates of such deposits and disbursements. In addition, the Trustee shall respond to reasonable inquiries made from time to time by the Authority as to the balances on deposit in, and the deposits to and disbursements from, such funds and accounts.

**Creation of Other Funds and Accounts**

At the written direction of the Authority, the Trustee shall establish additional funds and accounts under the Indenture, some or all of which, at the written direction of the Authority, may not be subject to the pledge of the Indenture.

**Creation and Application of a Capitalized Interest Account**

There is created and established pursuant to the Original Indenture with the Trustee an account to be designated the "Capitalized Interest Account". There shall be deposited in the Capitalized Interest Account, on the date of first issuance of Notes and from the proceeds of the sale thereof, moneys in the amount of $8,000,000. If there are no Notes Outstanding and certain other requirements set forth in the Original Indenture have been met, the Trustee shall transfer any balance then remaining in the Capitalized Interest Account to the 2001Series A Bonds Subaccount and the 2001 Series B Bonds Subaccount of such Account established pursuant to the First Supplemental Indenture as directed in writing by the Authority in connection with the issuance of the Series 2001 Bonds.

## SECURITY FOR AND INVESTMENT OR DEPOSIT OF FUNDS

**Deposits and Security Therefor**

All moneys received by the Trustee under the Indenture for deposit in any fund or account established thereunder shall, except as hereinafter provided, be deposited in the commercial department of the Trustee or any of its affiliates, until or unless invested or deposited as provided in Section 7.02 of the Original Indenture. All deposits in the commercial department of the Trustee or any of its affiliates (whether original deposits under Section 7.01 of the Original Indenture or deposits or re-deposits in time accounts under Section 7.02 of the Original Indenture) shall, to the extent not insured by the Federal Deposit Insurance Corporation, be fully secured by a pledge of Government Obligations, or secured as required by Pennsylvania law for deposits of trust funds. If at any time the commercial department of the Trustee or any of its affiliates is unwilling to accept such deposits or unable to secure them as provided above, the Trustee may deposit such moneys with any other depository which is authorized to receive them and the deposits of which are insured by the Federal Deposit Insurance Corporation. All deposits with any other depository in excess of the amount insured by the Federal Deposit Insurance Corporation (whether under Section 7.01 or Section 7.02 of the Original Indenture as aforesaid) shall, to the extent permitted by law, be secured by a pledge of Government Obligations.

**Investment or Deposit of Funds**

(a) The Trustee shall, as directed in writing by the Authority, invest moneys held in the funds and accounts established under the Indenture in any Investment Securities. All investments made pursuant to Section 7.02 of the Original Indenture shall mature or be subject to redemption by the holder at not less than the principal amount thereof or the cost of acquisition, whichever is lower, and all deposits in time accounts shall be subject to withdrawal without penalty, not later than the date when the amounts will foreseeably be needed for purposes of the Indenture. Other than amounts in the Note Redemption Account which shall be held uninvested or invested only in Government Obligations in accordance with Section 6.02 of the Original Indenture and other than amounts in the Capitalized Interest Account which shall be held reinvested in the absence of written investment directions from the Authority, in the absence of written investment directions from the Authority, the Trustee shall be deemed to have received direction from the Authority to continuously invest and reinvest moneys deposited in the various funds and accounts established under the Indenture in the JPMorgan Treasury Plus Institutional Class Money Market Mutual Fund, or its successor.

(b) The interest and other income received upon such investments and any interest paid by the Trustee or any other depository of any fund or account and any profit (or loss) resulting from the sale of securities shall initially be added (or charged) to the fund or account in question. Interest and other income received upon investment in funds or accounts and any profit resulting from the sale of securities therein during the construction of Additional Projects financed with the proceeds of Additional Debt shall be distributed or held in accordance with the terms of any Certified Resolution of the Authority or Supplemental Indenture provided that if such Resolution or Indenture contains no terms governing the holding or distribution, such interest and other income received on and any profit resulting from the sale of the securities contained in the funds or accounts during the construction of such Additional Projects shall be credited to the Construction Fund.

(c) Upon request of the Authority, or on its own initiative whenever payment is to be made out of any fund or account, the Trustee shall sell such securities as may be requested or required to make the payment and restore the proceeds to the fund or account in which the securities were held. Neither the Trustee

nor the Authority shall be accountable for any depreciation in the value of any such security or for any loss resulting from the sale thereof.

**Valuation of Funds**

In computing the assets of any fund or account, investments and accrued interest thereon shall be deemed a part thereof. Such investments shall be valued by the Trustee annually on June 30, at the current market value thereof, or at the redemption price thereof, if then redeemable at the option of the holder.

## COVENANTS OF AUTHORITY

**Payment of Principal or Redemption Price of and Interest on Debt**

The Authority shall promptly pay or cause to be paid the principal or applicable Redemption Price of, and interest on every Debt obligation issued under the Indenture according to the terms thereof, but shall be required to make such payment only out of the Trust Estate. The Authority shall appoint one or more Paying Agents for such purpose, each such agent to be a bank and trust company or a trust company or a national banking association having trust powers. The Authority hereby appoints the Trustee to act as Paying Agent and designates the Payment Office of such agent as the place of payment, such appointment and designation to remain in effect until notice of change is filed with the Trustee.

The Authority shall require any Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee that such Paying Agent will (1) hold all sums held by it for the payment of the principal of, or interest on, Debt obligations in trust for the benefit of the Holders of such Debt until such sums shall be paid to such Holders or otherwise disposed of as provided in the Indenture; (2) give the Trustee notice of any default by the Authority (or any other obligor upon the Debt) in the making of any payment of principal or interest; and (3) at any time during the continuance of such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

**Corporate Existence**

The Authority shall maintain its corporate existence throughout the term of the Debt; and shall comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements and directions of any legislative, executive, administrative or judicial body.

**Compliance with Security Leases**

The Authority covenants and agrees that (i) it shall comply with all applicable provisions of the Security Leases, as if contained in the Indenture; and (ii) it shall enforce against the City the obligations of the City under the Security Leases, including, without limitation, the obligation to pay the rental payments when due.

**Assignment of Security Leases**

The Authority agrees that, except for the assignment of the Veterans Stadium Sublease and certain rentals and rights under the Eagles Prime Lease and the Phillies Prime Lease to the Trustee pursuant to the Indenture, it will not assign or otherwise encumber such Security Leases or any payments due thereunder other than as contemplated therein; provided that the Authority shall have the right, with no additional consent of any bond insurer of the Debt, to enter into: (i) amendments to the legal descriptions of the real property contained in the Phillies Leases and the Eagles Leases; (ii) the Team Subleases, including amendments to the legal descriptions of the real property contained therein, and non-disturbance agreements substantially in the forms attached thereto; and (iii) a nondisturbance agreement in connection with the Veterans Stadium Sublease.

**Enforcement, Execution and Amendment of Security Leases and Other Contracts- Notice of Default**

The Authority shall enforce payment of service charges, rentals and other amounts payable under the Security Leases, and any other lease, agreement or other contract otherwise made subject to the lien and security interest created by the Indenture, and shall otherwise enforce all of its rights and privileges, and honor all of its

obligations thereunder. The Authority and the Trustee acknowledge and agree that the Team Subleases are not subject to Section 8.05 of the Original Indenture. So long as no Event of Default under the Indenture shall have occurred and be continuing, the Authority may exercise all of its rights under the Security Leases which have been assigned to the Trustee, or any other such lease, sublease, agreement or contract, or supplement or amendment thereto, but the Authority shall not, without the prior written consent of the Trustee and any bond insurer of the Debt, amend any of the same; provided that the Trustee and any bond insurer of the Debt shall not have the right to consent to any amendments of the nature described in clauses (i) and (ii) of Section 8.04 of the Original Indenture; and provided further that the Trustee and any such bond insurer shall not have the right to consent to amendments of the Team Subleases. Nothing in the Indenture shall prevent the Authority from exercising any rights under the Security Leases which have not been assigned to the Trustee or any bond insurer of the Debt and nothing in the Indenture shall prevent any bond insurer of the Debt from exercising any rights under the Security Leases which have been assigned to it in accordance with their terms. The Authority shall file with the Trustee copies of the Security Leases and all other leases, agreements and contracts of the nature referred to in Section 8.05 of the Original Indenture (whether heretofore or hereafter executed), together with all amendments or supplements thereto, and shall give prompt written notice to the Trustee of any material default by any of the parties thereto.

**Sale or Encumbrance of Veteran Stadium Premises, Eagles Premises, Phillies Premises Prohibited Exceptions**

Except as permitted by the Veterans Stadium Leases, the Eagles Leases, the Phillies Leases, the Team Subleases, or any agreements with the Commonwealth entered into in connection with the implementation of the Commonwealth's rights under the Capital Facilities Debt Enabling Act (Act of February 9, 1999, P.L. 1, No. 1) to acquire interests in the Eagles Premises or the Phillies Premises or as otherwise specifically permitted by the Indenture or in connection with the development of the new football stadium or baseball ballpark, the Authority shall not sell, lease, pledge or otherwise dispose of the Veteran Stadium Premises, the Eagles Premises, the Phillies Premises or any part thereof or of the revenues derived by the Authority therefrom or create any lien or encumbrance thereon. Upon the conditions stated, and upon receipt of any document required under the Veterans Stadium Leases, the Eagles Leases and the Phillies Leases, the Trustee shall execute such consents or releases to any sale, transfer or encumbrance permitted thereby as may be appropriate.

**Payment of Taxes; Discharge of Liens**

The Authority shall pay, or cause to be paid, all taxes, assessments, or other municipal or governmental charges lawfully imposed upon the Authority by virtue of its leasehold interest in the Veteran Stadium Premises, the Eagles Premises, and the Phillies Premises or any revenues therefrom and will not knowingly cause to be created any lien or charge thereon except the liens and charges of the Indenture and encumbrances permitted under Sections 8.04 and 8.09 of the Original Indenture or under the Veterans Stadium Leases, the Eagles Leases and the Phillies Leases.

**Compliance with Code**

(a) General. The Authority covenants with the Holders of tax-exempt Debt that, notwithstanding any other provisions of the Indenture or other instrument, it shall not take or cause to be taken any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the tax-exempt Debt under Section 103(a) of the Code.

(b) Arbitrage or Private Activity Bonds. The Authority covenants with the Holders of tax exempt Debt that it will make no use of the proceeds of such Debt which would cause such series of Debt to be "private activity bonds" or "arbitrage bonds" (as defined respectively in Sections 141(a) and 148 of the Code and all applicable regulations issued or proposed with respect thereto). The Authority shall not take any action which would cause interest on tax-exempt Debt to be includable for federal income tax purposes in the gross income of the Holders of such tax-exempt Debt. The Trustee may, from time to time, rely on an opinion of Bond Counsel as to compliance with the requirements of Section 8.18 of the Original Indenture.

(c) Rebate. The Authority agrees that there will be paid from time to time all amounts required to be paid to the United States pursuant to Section 148 of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to a series of tax-exempt Debt from time to time.

(d) Compliance with Federal Tax Certificate. In furtherance of the foregoing tax covenants of Section 8.18 of the Original Indenture, the Authority covenants that it will comply with the provisions of its Federal Tax Certificates, which are incorporated in the Indenture as if fully set forth therein. These covenants shall survive payment in full or defeasance of any tax-exempt Debt issued under the Indenture.

## EVENTS OF DEFAULT AND REMEDIES

**Events of Default Defined**

Each of the following shall be an "Event of Default" under the Indenture:

(a) If payment of the principal or Redemption Price of any Debt is not made when it becomes due and payable at maturity or upon call for redemption; or

(b) If payment of any installment of interest on any Debt is not made when it becomes due and payable; or

(c) Reserved; or

(d) If the Authority fails to comply with any provision of the Act and such failure continues for a period of thirty (30) days, or the Authority for any reason is rendered incapable of fulfilling its obligations under the Indenture or thereunder; or

(e) If the Authority defaults in the due and punctual performance of any other covenant in any Debt obligation or in the Indenture and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Authority and the City by the Trustee; or

(f) If any event of default under and as defined in any Security Lease shall have occured and be continuing; or

(g) If the City shall (i) suffer or permit proceedings under any law relating to bankruptcy, insolvency or reorganization or the relief of debtors to be instituted against it, and such proceedings remain undismissed or pending or unstayed for a period of 45 days or (ii) file a petition, or otherwise institute, or consent to the institution against it of, proceedings to take advantage of any law relating to bankruptcy, insolvency or reorganization or the relief of debtors.

**Acceleration and Annulment Thereof**

(a) If any Event of Default under clause (a), (b) or (c) under Section 9.01 of the Original Indenture occurs, the Trustee shall, and if any other Event of Default occurs the Trustee may in its discretion, and upon request of the Holders of 100% in principal amount of the Debt then Outstanding shall, by notice in writing to the Authority, declare the principal of all Debt then Outstanding to be immediately due and payable, and upon such declaration the said principal, together with premium, if any, and interest accrued thereon, shall become due and payable immediately at the place of payment provided therein, anything in the Indenture or in the Debt to the contrary notwithstanding.

(b) If after the principal of the Debt has been so declared to be due and payable, all arrears of interest upon the Debt (and interest on overdue installments of interest at the rate provided in the Debt) are paid by the Authority, and the Authority also performs all other things in respect to which there may have been a default under the Indenture and the Authority pays the reasonable charges and expenses of the Trustee, the Holders, and any trustee appointed under the Act, including reasonable attorney's fees and expenses, then, and in every such case, the Holders of a majority in aggregate principal amount of the Debt then Outstanding, by written notice to the Authority and to the Trustee, may annul such declaration and its consequences and such annulment shall be binding upon the Trustee and upon all Holders of Debt issued under the Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

**Enforcement by Trustee**

If any Event of Default occurs and is continuing, the Trustee shall enforce each and every right granted to the Authority and pledged under the Indenture under the Veterans Stadium Sublease and with respect to those rents payable pursuant to the Eagles Prime Lease and the Phillies Prime Lease which have been assigned and pledged to the Trustee under the Indenture and any supplements or amendments thereto, and shall apply the Trust Estate to the payment of the principal of or interest on the Obligations.

**Legal Proceedings by Trustee**

If any Event of Default has occurred and is continuing, and has not been waived or cured, the Trustee, may, and upon the written request of the Holders of 25% in aggregate principal amount of the Debt then Outstanding and receipt of indemnity to its reasonable satisfaction shall, in its own name:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Holders, including the right to require the Authority to collect rentals and other charges, in respect of any agreement as to or pledge of the revenues or receipts of the Authority, and to require the Authority to carry out any other agreements with, or for the benefit of, the Holders and to perform its and their duties under the law;

(b) bring suit upon the Obligations, the Veterans Stadium Sublease, the Eagles Prime Lease or the Phillies Prime Lease (provided in the case of the Eagles Prime Lease and the Phillies Prime Lease, that such suit is limited to a cause of action related to those rents pledged and assigned under the Indenture and the rights and remedies related thereto assigned under the Indenture);

(c) by action or suit in equity require the Authority to account as if it were the Trustee of an express trust for the Holders;

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Holders;

(e) exercise any or all other rights and remedies provided for by the Act or by any other law or in equity; and

(f) exercise all rights and remedies granted under the Veterans Stadium Sublease, the Eagles Prime Lease and the Phillies Prime Lease (provided that in the case of the Eagles Prime Lease and the Phillies Prime Lease, that such exercise of rights and remedies is limited to those rents pledged and assigned under the Indenture and the rights and remedies related thereto assigned under the Indenture).

**Discontinuance of Proceedings by Trustee**

If any proceeding taken by the Trustee on account of any default is discontinued or is determined adversely to the Trustee, then the Authority, the Trustee and the Holders shall be restored to their former positions and rights under the Indenture as though no such proceeding had been taken.

**Holders May Direct Proceeding**

The Holders of a majority in aggregate principal amount of the Debt then Outstanding under the Indenture shall have the right to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, provided that the Trustee is given indemnity reasonably satisfactory to it, that such directions shall not be otherwise than in accordance with law or the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Holders not parties to such direction.

**Limitations on Actions by Holders**

No Holder shall have any right to pursue any remedy under the Indenture *unless* (a) the Trustee shall have been given written notice of an Event of Default, (b) the Holders of at least 25% in aggregate principal amount of the Debt then Outstanding shall have requested the Trustee, in writing, to exercise the powers hereinabove granted or to pursue such remedy in its or their name or names, (c) the Trustee shall have been offered indemnity reasonably

satisfactory to it against costs, expenses and liabilities, and (d) the Trustee shall have failed to comply with such request within a reasonable time; provided, however, that nothing in the Indenture shall affect or impair the right of any Holder of any Debt obligation to enforce payment of the principal of, premium, if any, or interest on its Debt, at and after the due date thereof, or the obligation of the Authority to pay such principal, premium, if any, and interest on each of the Debt obligations to the respective Holders thereof at the time, place, from the source and in the manner expressed in the Indenture and in the Debt.

**Trustee May Enforce Rights Without Possession of Debt Obligations**

All rights under the Indenture and the Debt may be enforced by the Trustee without the possession of any Debt obligations or the production thereof at the trial or other proceedings relative thereto, and any proceeding instituted by the Trustee shall be brought in its name for the equal and ratable benefit of the Holders of the Debt.

**Remedies Not Exclusive**

No remedy conferred in the Indenture is intended to be exclusive of any other remedy or remedies, and each remedy is in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

**Delays and Omissions Not To Impair Rights**

No delay or omission in respect of exercising any right or power accruing upon any Event of Default shall impair such right or power or be a waiver of such Event of Default, and every remedy given by Article IX of the Indenture may be exercised from time to time and as often as may be deemed expedient.

**Application of Moneys In Event of Default**

Following the occurrence and during the continuance of an Event of Default, all moneys then held by the Trustee or thereafter received by the Trustee under the Indenture (other than moneys on deposit and required to be on deposit in the Note Redemption Amount, which shall be applied solely as otherwise provided in the Indenture) shall be applied as follows:

(a) Before any amounts paid pursuant to subsections (b), (c) and (d) of Section 9.12 of the Original Indenture, such moneys shall first be applied to the payment of the accrued costs and expenses of the Trustee, including reasonable fees and expenses of counsel and all costs and disbursements allowed by a court if there be any court action.

(b) Unless the principal of all Obligations shall have become or shall have been declared due, and payable, all such moneys shall be applied:

FIRST- To the payment to the Persons entitled thereto of all installments of interest then due on the Obligations, in order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and

SECOND- To the payment to the Persons entitled thereto of the unpaid principal of any of the Obligations which shall have become due (other than Obligations called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in order of their due dates, with interest on such Obligations from the respective dates on which they became due and, if the amount available shall not be sufficient to pay in full the Obligations due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege.

(c) If the principal of all Obligations shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid on the Obligations, without preference or priority of principal over interest or of interest over principal, or installment of interest over any other installment of interest, or any one Obligation over any other Obligation, and interest, to the Persons entitled thereto without any discrimination or privilege.

(d) If the principal of all Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled in the case of Debt, under the provisions of Article IX of the Original Indenture, then subject to the provisions of subsection (c) of Section 9.12 of the Original Indenture (which shall be applicable in the event that the principal of all Obligations shall later become due or be declared due and payable), the money shall be applied in accordance with the provisions of subsection (b) of Section 9.12 of the Original Indenture.

Whenever moneys are to be applied pursuant to the provisions of Section 9.12 of the Original Indenture, 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 for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) on which such application is to be made and on 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 Holder of any Debt obligation until such Debt obligation shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all principal of and interest on all Obligations has been paid under the provisions of Section 9.12 of the Original Indenture and all expenses and charges of the Trustee have been paid, any balance remaining in any of the funds shall be paid to the City.

**Trustee's Right to Receiver; Compliance with Law**

As provided by the Act, the Trustee shall be entitled as of right to the appointment of a receiver; and the Trustee, the Holders and any receiver so appointed shall have such rights and powers and be subject to such limitations and restrictions as are contained in the Act.

**Trustee and Holders Entitled to All Remedies under Act**

It is the purpose of Article IX of the Original Indenture to provide such remedies to the Trustee and the Holders as may be lawfully granted under the provisions of the Act; but should any remedy granted in the Indenture be held unlawful, the Trustee and the Holders shall nevertheless be entitled to every other remedy provided by the Act. It is further intended that, insofar as lawfully possible, the provisions of Article IX of the Original Indenture shall apply to and be binding upon the trustee or receiver appointed under the Act.

## THE TRUSTEE

**Acceptance of Trust**

The Trustee accepts and agrees to execute the trusts created by the Indenture, but only upon the additional terms set forth in Article X of the Original Indenture, to all of which the parties to the Indenture and the Holders agree.

**Trustee May Act Through Agents; Answerable Only for Willful Misconduct or Negligence**

The Trustee may exercise any powers under the Indenture and perform any duties required of it through attorneys, agents, officers, or employees, and shall be entitled to advice of counsel concerning all questions under the Indenture and shall be free from all liability for any action taken or omitted to be taken in reliance on such advice; and the Trustee shall not be answerable for the default or misconduct of any attorney, agent or employee selected by it with reasonable care, except that the Trustee shall at all times be answerable and responsible for any liability to the Authority resulting from any theft or loss of, or unauthorized or wrongful issuance of Debt held by it after an exchange as set forth in the Indenture. The Trustee shall not be answerable for the exercise of any discretion or power under the Indenture nor for anything whatever in connection with the trust thereunder, except only its own willful misconduct or negligence, except as otherwise provided in Section 10.03 of the Original Indenture.

**Compensation and Indemnity**

The Authority shall pay to the Trustee reasonable compensation for all services rendered by it under the Indenture and all reasonable advances, counsel fees and expenses and other expenses, including the allocated costs and expenses of in-house counsel and legal staff reasonably made or incurred by the Trustee under the Indenture, as set forth in a written agreement of the parties. In default of such payment by the Authority, the Trustee may deduct the same from any moneys coming into its hands (other than moneys (a) on deposit in or required to be deposited in the Note Redemption Account, the Reimbursement Account, Capitalized Interest Account, and any account established under the Purchase Fund or (b) disbursed under a bond insurance policy) and shall be entitled to a preference in payment over any of the Debt.

The Trustee may consult with its in-house counsel or such other counsel, with respect to questions arising under the Indenture, or with respect to the Debt, and shall have full and complete authorization for any action taken or suffered by it under the Indenture in good faith and in accordance with the opinion of such counsel. The Authority hereby agrees to indemnify and hold the Trustee, its directors, officers, employees and agents (the "Indemnitees") harmless from and against any and all liabilities, losses, damages, fines, suits, actions, demands, penalties, costs and expenses, including out-of-pocket, incidental expenses, the allocated costs and expenses of inhouse counsel and legal staff and the costs and expenses of defending or preparing to defend against any claim ("Losses") that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instruction or other direction upon which the Trustee is authorized to rely pursuant to the terms of the Indenture and the other documents pursuant to which Debt is issued under the Indenture. In addition to and not in limitation of the immediately preceding sentence, the Authority also covenants and agrees to indemnify and hold the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Trustee's performance under the Indenture and the other documents pursuant to which Debt is issued under the Indenture provided the Trustee has not acted with negligence or engaged in willful misconduct; provided, however, that the Trustee shall not (i) condition its obligation to perform any of the following duties, or (ii) seek indemnification from any Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Trustee's performance of any of the following duties: making a draw under a Liquidity Facility or Credit Facility, making payments to Bondholders and effecting a mandatory tender for purchase for or redemption or acceleration of Bonds. The provisions of Section 10.04 of the Original Indenture shall survive the termination of the Indenture, the Debt and the resignation or removal of the Trustee for any reason.

**No Duty to Renew Insurance**

The Trustee shall be under no duty to monitor the insuring of the Project or effect or to renew any insurance policy nor shall it incur any liability for the failure of the Authority to require or effect or renew insurance or to report or file claims of loss thereunder.

**Notice of Default; Right to Investigate**

The Trustee shall, within thirty (30) days after the occurrence of an Event of Default under clauses (a), (b) or (c) of Section 9.01 of the Original Indenture, and in the case of any other Event of Default within sixty ( 60) days after it has knowledge of such other Event of Default under the Indenture, give written notice by first class mail to the Owners of the Debt of all such Events of Default, unless such Events of Default have been remedied; provided that, except in the case of a default in payment of principal or sinking fund payments on the Debt or interest on the Debt, the Trustee may withhold such notice as long as it in good faith determines that such withholding is in the interest of the Holders. The Trustee shall not be deemed to have notice of any Event of Default under clauses (d) and (e) of Section 9.01 of the Original Indenture unless the Trustee shall have actual knowledge thereof or unless notified in writing of such Events of Default by the Holders of at least 25% in aggregate principal amount of the Debt then Outstanding. The Trustee may, however, at any time, require of the Authority full information as to the performance of any covenant under the Indenture; and if information satisfactory to it is not forthcoming, the Trustee may make or cause to be made, at the expense of the Authority, an investigation into the affairs of the Authority related to the Indenture and the properties covered thereby.

**Obligation to Act on Defaults**

If any Event of Default shall have occurred of which the Trustee has notice or is deemed to have notice under Section 10.06 of the Original Indenture, and be continuing, the Trustee shall exercise such of the rights and remedies vested in it by the Indenture and shall use the same degree of care in their exercise as a prudent man would exercise or use in the circumstances in the conduct of his own affairs; provided, that if in the opinion of the Trustee such action may tend to involve expense or liability, it shall not be obligated to take such action unless it is furnished with indemnity reasonably satisfactory to it; provided further, however, that the Trustee shall not require the furnishing of indemnity as a condition to the deposit and application of moneys in accordance with the Indenture (other than moneys in the Construction Fund). Nothing set forth in Section 10.07 of the Original Indenture shall be construed to require the Trustee to exercise any such rights and remedies where to do so would cause the Trustee to violate any law or any order of a court of competent jurisdiction.

**Reliance on Request for Funding and Requisitions, etc.**

The Trustee may act on any request for funding requisition, resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper Persons or to have been prepared and furnished pursuant to any of the provisions of the Indenture; and the Trustee shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement.

**Trustee May Deal In and Own Debt**

The Trustee and any of its affiliates may in good faith buy, sell, own, hold, and deal in any of the Debt and may join in any action which any Holders may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee and any of its affiliates may also engage in or be interested in any financia1 or other transaction with the Authority and/or the City, provided that if the Trustee determines that any such relation is in conflict with its duties under the Indenture, it shall eliminate the conflict or resign as Trustee .

**Other Rights of the Trustee**

The permissive rights of the Trustee to do things enumerated in the Indenture shall not be construed as a duty. The Trustee shall not be liable with respect to any action taken or omitted to be taken at the direction of the Owners of a majority in aggregate principal amount of the Debt Outstanding permitted to be given by them under the Indenture.

**Resignation of Trustee**

The Trustee may resign and be discharged of the trusts created by the Indenture by written resignation filed with the Secretary of the Authority and any bond insurer of the Debt not less than sixty (60) days before the date when such resignation is to take effect; provided notice of such resignation is mailed by first class mail, postage prepaid, to Holders not less than three weeks prior to the date when the resignation is to take effect and provided that such Trustee may not be discharged of its duties under the Indenture until a successor Trustee is appointed and accepts such appointment. Such resignation shall take effect on the day specified therein unless a successor Trustee is previously appointed and accepts such appointment, in which event the resignation shall take effect immediately on the appointment and acceptance of appointment of such successor.

If no appointment of a successor shall be made within sixty ( 60) days after notice is given by the Trustee in accordance with the provisions of Section 10.12 of the Original Indenture, the Trustee or any Holder at the expense of the Authority, may apply to any court of competent jurisdiction for the appointment of a successor. Thereupon, such court, after such notice as it may deem proper and may prescribe, may appoint a successor Trustee.

**Removal of Trustee**

The Trustee may be removed, upon sixty (60) days notice, by an instrument, executed by the Authority or the Holders of a majority in aggregate principal amount of the Debt then Outstanding; provided that the Authority shall not have any right to remove the Trustee if an Event of Default under the Indenture has occurred and is continuing; and provided further, that no such removal shall become effective until a successor trustee is appointed and accepts such appointment. Such removal shall take effect on the day specified therein unless a successor trustee is previously appointed and accepts such appointment, in which event the removal shall take effect immediately upon the appointment of and acceptance of appointment of such successor.

**Appointment of Successor Trustee**

If the Trustee or any successor trustee resigns or is removed or dissolved, or if its property or business is taken under the control of any state or federal court or administrative body, a vacancy shall forthwith exist in the office of the Trustee , and the Authority with the prior written consent of any bond insurer of the Debt shall appoint a successor and shall mail promptly notice of such appointment to the Owners of the Debt. If the Authority fails to make such appointment within thirty (30) days, the Holders of a majority in principal amount of the Debt then Outstanding may do so with the prior written consent of any bond insurer of the Debt.

**Qualification of Successor**

A successor trustee shall be a national bank with trust powers or a bank and trust company or a trust company having capital and surplus of at least $50,000,000.

**Merger of Trustee**

Any corporation or association into which any Trustee under the Indenture may be merged or with which it may be consolidated, or any corporation or association resulting from any merger or consolidation to which any Trustee under the Indenture shall be a party or any corporation or association to which the Trustee shall sell or otherwise transfer all or substantially all of its corporate trust business, shall be the successor Trustee under the Indenture, without the execution or filing of any paper or any further act on the part of the parties thereto, anything therein to the contrary notwithstanding, provided that such successor corporation or association continuing to act as Trustee shall meet the requirements of Section 10.15 of the Original Indenture, and if such corporation or association does not meet the aforesaid requirements, a successor Trustee shall be appointed pursuant to Article X of the Original Indenture.

## AMENDMENTS AND SUPPLEMENTS

**Amendments and Supplements Without Holders' Consent**

The Indenture may be amended or supplemented in connection with the issuance of Additional Debt, or at any other time and from time to time, without the consent of the Holders, but with the prior written consent of any bond insurer of the Debt (except in the case of the issuance of Additional Debt), by a Supplemental Indenture authorized by a Certified Resolution of the Authority delivered to the Trustee, for one or more of the following purposes:

(a) to set forth any or all of the matters in connection with the issuance of Additional Debt required by Section 3.02 of the Original Indenture;

(b) to add additional covenants of the Authority or to surrender any right or power conferred in the Indenture upon the Authority;

(c) to cure any ambiguity, inconsistency, or omission or to cure, correct or supplement any provision of the Indenture in such manner as shall not be inconsistent with the Indenture and shall not impair the security thereof or materially adversely affect the Holders;

(d) to supplement the security for the Notes or any Additional Debt, replace or provide additional credit facilities, or change the form of the Notes or make such other changes in the provisions of the

Indenture, as the Authority may deem necessary or desirable and which shall not, in the judgment of the Authority, materially adversely affect the interests of the Owners of the Outstanding Debt;

(e) to make any changes or amendments requested by any bond rating agency then rating or requested to rate the Debt, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Authority, materially adversely affect the interests of the Owners of the Outstanding Debt; or

(f) to preserve the exemption from federal income tax of interest on any tax-exempt Debt. Pursuant to subsection (d) above, the execution of a Supplemental Indenture adding the Practice Facility Prime Lease or any other Security Leases to the Trust Estate and making certain corresponding changes in the Indenture shall be deemed an amendment pursuant to Section 12.01 of the Original Indenture, which does not require the consent of the Holders (but which does require the consent of any bond insurer of the Debt).

**Amendments With Holders' Consent**

The Indenture may be amended from time to time, except with respect to (1) the interest on and principal payable upon any Debt, (2) the dates of maturity or redemption provisions of any Debt, and (3) Article XII of the Original Indenture, by a Supplemental Indenture approved by the Holders of at least a majority in aggregate principal amount of the Debt then Outstanding and approved by any bond insurer of the Debt in writing; provided, that no amendment shall be made which adversely affects one or more but less than all series of Debt without the consent of the Holders of at least a majority in aggregate principal amount of the then Outstanding Debt of each series so affected, and no amendment shall be made which affects the rights of some but less than all the Outstanding Debt of any one series without the consent of the Holders of a majority in aggregate principal amount of the Debt so affected. Amendment with respect to items (1), (2), and (3) of Section 12.02 of the Original Indenture shall be effected only with the consent of the Holders of all Debt then Outstanding which are affected by such amendments.

## DEFEASANCE

**Defeasance**

When interest on, and principal or Redemption Price (as the case may be) of, all Debt issued under the Indenture or secured thereby have been paid, or there shall have been deposited with the Trustee an amount of (i) cash in an amount sufficient to pay in full the principal of and interest on the Debt, and all other sums payable under the Indenture by the Authority, (ii) noncallable Government Obligations, the principal of and interest on which, when due, will provide sufficient moneys without reinvestment to pay in full the principal of and interest on the Debt, as well as all other sums payable under the Indenture by the Authority, or (iii) any combination of the foregoing, then the right, title and interest of the Trustee in the Trust Estate shall thereupon cease and the Trustee, on demand of the Authority, shall release the Trust Estate from the lien and security interest created by the Indenture and shall execute such documents to evidence such release as may be reasonably required by the Authority and shall turn over to the Authority or to such Person as may be entitled to receive the same all balances remaining in any funds under the Indenture and the Trustee's right, title and interest to and under the Security Leases shall terminate.

The Trustee shall also receive evidence satisfactory to it that the cash and Government Obligations delivered will be sufficient to provide for the payment of the Debt as aforesaid. Neither the Government Obligations nor moneys deposited with the Trustee pursuant to Section 13.01 of the Original Indenture shall be withdrawn or used for any purpose other than, and shall be segregated and held in trust for, the payment of the principal or Redemption Price of, and interest on, the Debt and the other sums payable under the Indenture by the Authority with respect to which such deposit has been made. The Trustee shall send, by registered or first-class mail, postage prepaid, to the Holders of all Debt at their registered addresses a notice stating that such moneys or obligations have been deposited and identifying the Debt for the payment of which such moneys or obligations are being held.

## MISCELLANEOUS

**Deposit of Funds for Payment of Debt**

If the Authority deposits with the Trustee moneys or Government Obligations sufficient to pay the principal or Redemption Price of any Debt becoming due, either at maturity or by call for redemption or otherwise, together

with all interest accruing thereon to the due date, interest on such Debt shall cease to accrue on the due date and all liability of the Authority with respect to such Debt shall cease, except as provided in the Indenture. Thereafter the Holders of such Debt shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such Debt, and the Trustee shall hold such funds in trust for such Holders. Moneys so deposited with the Trustee which remain unclaimed two years after the date payment thereof becomes due shall, upon the written request of the Authority, if the Authority is not at the time, to the knowledge of the Trustee, in default with respect to any covenant in the Indenture or the Debt, be paid to the Authority for and on account of the City; and the Holders of the Debt for which the deposit was made shall thereafter be limited to a claim against the Authority. In the absence of any such written request, the Trustee shall from time to time deliver such unclaimed funds to or as directed by pertinent escheat authority, as identified by the Trustee in its sole discretion, pursuant to and in accordance with applicable unclaimed property laws, rules or regulations. Any such delivery shall be in accordance with the customary practices and procedures of the Trustee and the escheat authority. All moneys held by the Trustee and subject to Section 14.02 of the Original Indenture all be held uninvested and without liability for interest thereon.

## THE FIRST SUPPLEMENTAL INDENTURE
## THE 2001 BONDS

### Construction Fund Accounts for Series 2001 Bond Proceeds

The Trustee shall establish an account within the Construction Fund designated "2001 Series A Bonds Account" for deposit of a portion of the 2001 Series A Bond proceeds and an account within the Construction Fund designated "2001 Series B Bonds Account" for deposit of a portion of the 2001 Series B Bond proceeds and within each account a sub-account for the Rehabilitation, and a subaccount for the balance of the 2001 Project (other than the refunding of the Notes) which shall constitute an Additional Project for purposes of the Indenture. The closing statement delivered at the issuance of the Series 2001 Bonds shall state the amounts to be deposited by the Trustee in the sub accounts for the Rehabilitation and for the balance of the 2001 Project. The disbursement of the funds held from time to time in the Construction Fund shall be made in accordance with the provisions of Section 5.02 of the Original Indenture. Upon delivery of the completion certificate described in Section 5.03 of the Original Indenture with respect to the Project (as defined in the Original Indenture) or the 2001 Project, any amount remaining in the Construction Fund and not reserved for the payment of Costs of such Project shall be transferred to the Bond Fund for payment of principal or Redemption Price of, or interest on the Bonds as provided in Section 4.04 of the First Supplemental Indenture.

### Capitalized Interest Account Subaccounts for Series 2001 Bonds

The Trustee shall establish a subaccount within the Capitalized Interest Account designated "2001 Series A Bonds Subaccount" for deposit of certain available moneys other than proceeds of the Series 2001 Bonds, if any, and a subaccount within the Capitalized Interest Account designated "2001 Series B Bonds Subaccount" for deposit of certain available moneys other than proceeds of the Series 2001 Bonds, if any. Amounts in each of these subaccounts shall be transferred by the Trustee, without further direction, on the Business Day prior to each Interest Payment Date for the Series 2001 Bonds to the appropriate Interest Account of the Bond Fund in the amounts set forth in Exhibit D attached to the First Supplemental Indenture and made a part thereof.

## REVENUES, THEIR APPLICATION AND CERTAIN FUNDS

### Receipts and Revenues of the Authority

Confirming the granting clauses of the Original Indenture and of the First Supplemental Indenture, the Authority assigns, transfers and sets over to the Trustee, as security, all the right, title and interest of the Authority in and to the Trust Estate, and the Authority directs payment to the Trustee of the payments under the Security Leases constituting a portion of the Trust Estate. In order to avoid any doubt, the Authority confirms that the Construction Fund is not being pledged as security for the Series 2001 Bonds and does not constitute part of the "Trust Estate" for purposes of the First Supplemental Indenture.

**Creation of the Bond Fund**

There is created and established pursuant to the First Supplemental Indenture with the Trustee a Bond Fund which shall be used to pay, in the following order of priority, (i) principal or Redemption Price of and interest on the Series 2001 Bonds and any additional Bonds, and (ii) payments due any Counterparty under a Swap relating to the Bonds. There are hereby created within the Bond Fund five accounts designated "Interest Account", "Principal Account", a "Bond Redemption Account", "Swap Receipts Account" and "Swap Payments Account."

**Payments into the Bond Fund**

The Trustee shall promptly deposit the following receipts into the Bond Fund:

(a) All revenues and any other moneys payable under the Security Leases and pledged under the First Supplemental Indenture and under the Original Indenture.

(b) Net income or gain received and collected from investments of money in the Bond Fund.

(c) All other receipts when and if required by the Security Leases or by the Indenture to be paid into the Bond Fund and any other amounts received by the Trustee constituting the Trust Estate or other payments under the Indenture (except proceeds of Additional Debt).

**Application of Bond Fund**

(a) The Trustee shall make available from amounts deposited under the First Supplemental Indenture, funds to the Authority's Paying Agent or Agents to pay the principal of Bonds as they mature or are subject to mandatory redemption, upon surrender thereof, and the interest on Bonds as it becomes payable. The Trustee shall establish separate accounts within the Bond Fund, including those accounts created pursuant to Section 4.02 of the First Supplemental Indenture, for separate series of Bonds of particular dates. Moneys in the Bond Fund shall be used solely for the payment of the principal or Redemption Price of and interest on the Bonds as the same shall become due and payable at maturity, upon redemption or otherwise. Funds for such payments of the principal or Redemption Price of and interest on the Bonds shall be derived from, and paid by the Trustee from, the following sources in the order of priority indicated:

(i) moneys transferred from the Capitalized Interest Account for payment of interest shall be deposited in the appropriate Interest Account and applied to the payment of interest next due on the Bonds;

(ii) amounts deposited into the Bond Fund pursuant to Section 2.11 of the First Supplemental Indenture and clause (b) of Section 4.04 of the of the First Supplemental Indenture; and

(iii) any other moneys furnished by the Authority or the City to the Trustee, including moneys received by the Trustee pursuant to the Security Leases.

(b) Moneys deposited pursuant to Section 5.03 of the Original Indenture and Section 2.14 of the First Supplemental Indenture into the Bond Fund, and any income or other gain from the investment thereof, shall be held in trust for, deposited into the Principal Account, the Interest Account or the Bond Redemption Account, as the Authority shall direct in writing, and applied by the Trustee to, the payment of the principal of and interest on the Bonds on the next due date.

**Bond Redemption Accounts**

The Trustee shall establish as a part of the Bond Fund, a 2001 Series B Bond Redemption Account and such other bond redemption accounts for series of additional Bonds as may be directed in the Certified Resolution of the Authority or Supplemental Indenture establishing such series and shall transfer funds into such bond redemption accounts from the Bond Fund as required to redeem Bonds on the dates specified in the First Supplemental Indenture or in the form of the Bond. The Trustee shall use the bond redemption account for each series to purchase or redeem the Bonds of such series. If at any time all the Bonds of any series shall have been purchased, redeemed or paid, the Trustee shall make no further transfers to the bond redemption account for such series and shall transfer

any balance then in such account to the Bond Fund. Whenever Bonds are to be purchased out of any such redemption account, if the Authority, upon the direction of the City, shall notify the Trustee in writing that the Authority wishes to arrange for such purchase, the Trustee shall comply with the Authority's arrangements provided they conform to the Indenture. Purchases and redemptions out of such redemption accounts shall be made as follows:

(a) 2001 Series B Bond Redemption Account. The Trustee shall apply the amounts required to be transferred to the 2001 Series B Bond Redemption Account (less any moneys applied to the purchase of the 2001 Series B Bonds pursuant to the next sentence hereof) on the Sinking Fund Installment Date (i) in each of the years 2022 through 2025, inclusive to the redemption by lot, in the amounts and the manner and on the dates set forth in the 2001 Series B Bond form and Article III of the First Supplemental Indenture, of the 2001 Series B Bonds which mature on October 1, 2026 at a Redemption Price of 100% of the principal amount thereof and (ii) in each of the years 2027 through 2029, inclusive to the redemption by lot, in the amounts and the manner and on the dates set forth in the 2001 Series B Bond form and Article III of the First Supplemental Indenture, of the 2001 Series B Bonds which mature on October 1, 2030 at a Redemption Price of 100% of the principal amount thereof. Upon the written direction of the Authority, acting at the written direction of the City, not less than forty-five (45) days prior to a redemption date, the Trustee may apply moneys in said account to the purchase of 2001 Series B Bonds which mature on October 1, 2026 or 2030 at prices exclusive of accrued interest not higher than the principal amount thereof, in lieu of redemption as aforesaid, provided that firm purchase commitments can be made before notice of redemption would otherwise be required to be given. In the event of purchases at less than the principal amount thereof, the difference between the amount in said account representing the principal amount of the 2001Series B Bonds purchased and the purchase price shall be transferred to the Bond Fund. Moneys and investments in the 2001 Series B Bond Redemption Account, until applied as provided herein, shall be held in trust solely for the benefit of the Holders of the 2001 Series B Bonds. Accrued interest on purchased 2001 Series B Bonds shall be paid from the sources and in the order stated in Section 4.04 of the First Supplemental Indenture from the Bond Fund, provided that the Trustee, at the written direction of the Authority, shall pay such accrued interest from the moneys in the 2001 Series B Bond Redemption Account pending maturity of investments of the Bond Fund (and in such case upon the maturity of investments in the Bond Fund, the Trustee shall transfer to the 2001 Series B Bond Redemption Account from the Bond Fund the amount of accrued interest on purchased 2001 Series 8 Bonds so paid from such Bond Redemption Account).

(b) Purchase of 2001 Series B Bonds by the City. Pursuant to the Security Leases, the City may, not less than forty-five (45) days before any Sinking Fund Installment Date, deliver to the Trustee Bonds of the series and maturity, a portion of which is required to be redeemed by the Trustee on such Sinking Fund Installment Date, and, upon such delive1y, the rentals required to effect such redemption otherwise due from the City shall be reduced by the aggregate principal amount of the Bonds so delivered. Upon any such delivery of 2001 Series B Bonds, the principal amount of the 2001 Series B Bonds required, by the provisions of the foregoing paragraph (1), to be redeemed by the Trustee on such Sinking Fund Installment Date shall also be reduced by the aggregate principal amount of the Bonds of such series so delivered.

(c) Bond Redemption on Accounts of Other Series. The Trustee shall apply the amounts deposited in bond redemption accounts for other series of Bonds as provided in the Supplemental Indenture establishing such series.

## MISCELLANEOUS

### Confirmation of the Original Indenture

Except as amended and supplemented by the First Supplemental Indenture, the Original Indenture is ratified and confirmed in all respects and is applicable in all respects to the Series 2001 Bonds, the Owners thereof and the security therefor.

### Amendment of the First Supplemental Indenture

The First Supplemental Indenture may be amended or supplemented from time to time in the manner and to the extent provided in Article XII of the Original Indenture.

**Additional Provisions Concerning FSA**

The following provisions shall apply to the Series 2001 Bonds so long as the principal and interest on the Series 2001 Bonds are guaranteed by FSA through the FSA Municipal Bond Insurance Policy; provided that such provisions shall not be applicable upon the failure of FSA to pay or perform under the FSA Municipal Bond Insurance Policy or if the FSA Municipal Bond Insurance Policy shall cease to be valid or effective; provided, FSA shall be entitled to exercise its rights as Holder through subrogation to the extent FSA has made a payment under the FSA Municipal Bond Insurance Policy. The rights granted to FSA under the Indenture or any other Related Document (as defined herein) to request, consent to or direct any action are rights granted to FSA in consideration of its issuance of the FSA Municipal Bond Insurance Policy. Any exercise by FSA of such rights is merely an exercise of FSA's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Holders nor does such action evidence any position of FSA, positive or negative, as to whether Holder consent is required in addition to consent of FSA.

(a) The Authority covenants to send a copy of all notices it sends or receives pursuant to the Veterans Stadium Leases, the Eagles Leases or the Phillies Leases to FSA at the address set forth in Section 5.04(n) of the First Supplemental Indenture.

(b) FSA shall be deemed to be the sole holder of the Series 2001 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Holders of the Series 2001 Bonds are entitled to take pursuant the Articles IX and X of the Original Indenture.

(c) The Series 2001 Bonds shall not be accelerated without the consent of FSA and in the event the Series 2001 Bonds are accelerated, FSA may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the Authority) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, FSA's obligations under the FSA Municipal Bond Insurance Policy with respect to such Series 2001 Bonds shall be fully discharged.

(d) No grace period for a covenant default by the Authority shall exceed 60 days without prior written consent of FSA.

(e) FSA shall be an express third party beneficiary of the Indenture.

(f) No modification or amendment to the Indenture may become effective except upon obtaining the prior written consent of FSA. Copies of any modification or amendment to the Indenture shall be sent by the Authority to S&P and Moody's at least 10 days prior to the effective date thereof.

(g) Other than as set forth in Sections 8.04 and 8.05 of the Original Indenture , no modification or amendment to the Security Leases, the Veterans Stadium Lease, the Eagles Ground Lease or the Phillies Ground Lease (each, together with the Indenture, a "Related Document") may become effective except upon obtaining the prior written consent of FSA as set forth below:

(i) The Authority shall not enter into any amendment to the Veterans Stadium Sublease, the Eagles Prime Lease, the Phillies Prime Lease, the Veterans Stadium Lease, the Eagles Ground Lease or the Phillies Ground Lease which does not materially adversely affect the Security for the Series 2001 Bonds or FSA without, at the option of the Authority, either (1) receiving an opinion of Counsel to the Authority addressed and delivered to FSA that such amendment does not materially adversely affect the Security for the Series 2001 Bonds or FSA or (2) obtaining the prior written consent of FSA, which consent shall be deemed to have been given if FSA does not respond in writing to the Authority within twenty (20) days of receiving notice of such amendment.

(ii) The Authority shall not enter into any amendment to the Veterans Stadium Sublease, the Eagles Prime Lease, the Phillies Prime Lease, the Veterans Stadium Lease, the Eagles Ground Lease or the Phillies Ground Lease, other than as described in (i) above, without obtaining the prior written consent of FSA, which consent shall be deemed to have been given if FSA does not

respond in writing to the Authority within twenty (20) days of receiving notice of such amendment.

For purposes of the provisions set forth in both (i) and (ii) above: (a) notice in the form attached to the First Supplemental Indenture as Exhibit E shall be sent to the CEO, the Managing Director of Surveillance and the General Counsel of FSA, which shall include a copy of the proposed amendment; (b) notice in the form attached to the First Supplemental Indenture as Exhibit E shall be resent to CEO, Managing Director of Surveillance and General Counsel if written consent to such amendment is not received within ten (10) days of delivering the notice described in clause (a); and (c) all notices shall be sent by hand delivery with signed receipt request.

(h) Only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the custodian and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) prerefunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively or (5) securities eligible for "AAA" defeasance under the existing criteria of S&P or any combination thereof, shall be authorized to be used to effect defeasance of the Series 2001 Bonds unless FSA otherwise approves.

To accomplish defeasance the Authority shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to FSA ("Accountant") verifying the sufficiency of the escrow established to pay the Series 2001 Bonds in full on the maturity or redemption date ("Verification"), (ii) an escrow deposit agreement (which shall be acceptable in form and substance to FSA), (iii) an opinion of nationally recognized bond counsel to the effect that the Series 2001Bonds are no longer "Outstanding" under the Indenture and (iv) if there is a Trustee for the Series 2001 Bonds a certificate of discharge of the Trustee with respect to the Series 2001 Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Authority, the Trustee and FSA. FSA shall be provided by the Authority with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow.

Series 2001 Bonds shall be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

(a) Amounts paid by FSA under the FSA Municipal Bond Insurance Policy shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Indenture. The Indenture shall not be discharged unless all amounts due or to become due to FSA have been paid in full or duly provided for.

(b) The Authority covenants and agrees to take such action (including, as applicable, filing of UCC financing statements) as is necessary from time to time to perfect or otherwise preserve the priority of the pledge of Trust Estate under applicable law.

(c) FSA shall, to the extent it makes any payment of principal of or interest on the Series 2001 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the FSA Municipal Bond Insurance Policy. The obligations to FSA shall survive discharge or termination of the Related Documents.

(d) The Authority shall pay or reimburse FSA any and all charges, fees, costs and expenses which FSA may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Indenture or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any other Related Document whether or not executed or completed, (iv) the violation by the Authority or the City of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with the Indenture or any other Related Document or the transactions contemplated thereby, other than amounts resulting from the failure of FSA to honor its obligations under the FSA Municipal Bond Insurance Policy. FSA reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any other Related Document. The liability of the Authority

pursuant to this paragraph shall be limited to the Trust Estate pledged under the Indenture to secure the Series 2001 Bonds and the liability of the City shall be limited as provided in the Security Leases.

(e) FSA shall be entitled to pay principal or interest on the Series 2001 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the FSA Municipal Bond Insurance Policy) and any amounts due on the Series 2001 Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not FSA has received a Notice of Nonpayment (as such term is defined in the FSA Municipal Bond Insurance Policy) or a claim upon the FSA Municipal Bond Insurance Policy.

(f) Notwithstanding satisfaction of other conditions to the issuance of additional Bonds contained in the Indenture, no such issuance may occur should any Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing unless such default shall be cured upon such issuance, or unless otherwise permitted by FSA.

**Closure of Notes Program**

Upon the execution and delivery of the First Supplemental Indenture, the Authority shall not issue any Notes under the Indenture.

**Amendments of Original Indenture**

(a) The Sinking Fund Account established under the Original Indenture shall be closed and provisions relating thereto under the Original Indenture shall be of no effect. Any amounts directed to be deposited therein under the Original Indenture shall instead be deposited in the Bond Fund.

(b) The reference to the Capitalized Interest Account in the first sentence of Section 9.12 of the Original Indenture is deleted.

(c) Any references to the "Credit Agreement," the "Credit Agreement Obligations" and the "Bank" in the Original Indenture are deleted.

**No Personal Recourse**

Notwithstanding any provision or obligation to the contrary set forth in the First Supplemental Indenture, no provision in the First Supplemental Indenture or in any instruments evidencing the Series 2001 Bonds, shall be construed so as to give rise to any personal liability of the Authority or its members, officers, employees, agents or representatives (collectively, the "Group"), or to give rise to a charge upon the general credit of the Authority or any member of the Group. Any pecuniary liability of the Authority or any member of the Group under the First Supplemental Indenture or thereunder, and under any constitutional provision, statute or theory of law, including contract or tort relating thereto, shall be limited exclusively to its interest in the Trust Estate, and the lien of any judgment with respect to any of the foregoing shall be restricted thereto. The Authority and the Group shall not be required to do any act whatsoever or exercise any diligence whatsoever to mitigate the damages to the Trustee or the Holders if an Event of Default shall occur under the Indenture. In furtherance of the above, and not by way of limitation, no recourse under or upon any obligation, covenant or agreement contained in the First Supplemental Indenture or in any Obligation thereby secured, or under any judgment obtained against the Authority or any member of the Group, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise, or under any circumstances, under or independent of the First Supplemental Indenture, shall be had against any member of the Group as such, past, present or future, of the Authority for the payment for or to the Authority or any receiver thereof, or for or to the Owners of any Series 2001 Bonds issued under the First Supplemental Indenture or otherwise, of any sum that may be due and unpaid by the Authority upon any such Series 2001 Bonds. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such member of the Group as such, to respond by reason of any act or omission on his part or otherwise, for the payment for or to the Owners of the Series 2001 Bonds issued under the First Supplemental Indenture or otherwise, of any sum that may remain due and unpaid upon the Series 2001 Bonds and thereby secured, or any of them, is expressly waived and released as a condition of and consideration for the execution of the First Supplemental Indenture and the issuance of such Series 2001 Bonds.

The Authority and each member of the Group shall have no liability for any failure to fulfill, or breach by the City of, the City's obligations under the Security Leases or otherwise.

The Series 2001 Bonds issued or secured under the First Supplemental Indenture shall be limited obligations of the Authority payable solely from those rentals due under the Security Leases which have been assigned as provided in the First Supplemental Indenture and as otherwise provided therein and in the Original Indenture.

## THE SECOND SUPPLEMENTAL INDENTURE

### Receipts and Revenues of the Authority

The definition of Trust Estate under the Original Indenture is amended to include payments received by the Authority from a Counterparty under any swap agreement entered into by the Authority in connection with Bonds issued under the Indenture.

### Lien on Trust Estate

The granting paragraph of the Original Indenture is amended to grant a lien (subordinate to the lien granted on an equal and ratable basis to holders of Debt) for the benefit of the Counterparty for the payment and performance of the Authority's obligations under any swap agreement entered into by the Authority in connection with Bonds issued under the Indenture thereunder.

### Creation of Bond Fund

Amending Section 4.02 of the First Supplemental Indenture, there is established and created under the Second Supplemental Indenture with the Trustee a Bond Fund which shall be used to pay, in the following order of priority, (i) principal or Redemption Price of and interest on the Series 2001 Bonds and any additional Bonds, and (ii) payments due any Counterparty under a Swap relating to the 2001 Bonds, but only for so long as the Counterparty under such Swap is not in default of its payment obligations thereunder. There is created pursuant to the Second Supplemental Indenture within the Bond Fund, an Interest Account, Principal Account, Bond Redemption Account, Swap Receipts Account and Swap Payments Account.

### Payments Into Bond Fund

The Trustee shall promptly deposit the following receipts into the Bond Fund:

(a) All revenues and any other moneys payable under the Security Leases and pledged herein and under the Original Indenture.

(b) Net income or gain received and collected from investments of money in the Bond Fund.

(c) All Authority Swap Receipts which shall be deposited to the credit of the Swap Receipts Accounts in the Bond Fund.

(d) All other receipts when and if required by the Security Leases or by the Indenture to be paid into the Bond Fund and any other amount it received by the Trustee constituting the Trust Estate or other payment as under the Indenture (except proceeds of Additional Debt).

### Application of Bond Fund

(a) The Trustee shall make available from amounts deposited under the Second Supplemental Indenture, first, funds to the Authority's Paying Agent or Agents to pay the principal of Bonds as they mature or are subject to mandatory redemption, upon surrender thereof, and the interest on Bonds as it becomes payable, and second, to pay to any Counterparty, as and when due, Authority Swap Payments. The Trustee shall establish separate accounts within the Bond Fund, including those accounts created pursuant to Section 4.02 of the Second Supplemental Indenture, for separate series of Bonds of particular dates. Moneys in the Bond Fund shall be used solely for the payment of the principal or Redemption Price of and interest on the Bonds as the same shall

become due and payable at maturity, upon redemption or otherwise, and Authority Swap Payments. Funds for such payments of the principal or Redemption Price of and interest on the Bonds shall be derived from, and paid by the Trustee from, the following sources in the order of priority indicated:

(i) moneys transferred from the Capitalized Interest Account for payment of interest shall be deposited in the appropriate Interest Account and applied to the payment of interest next due on the Bonds;

(ii) amounts deposited into the Bond Fund pursuant to Section 2.11 and clause (b) of Section 4.04 of the Second Supplemental Indenture;

(iii) amounts deposited into the Swap Receipts Account of the Bond Fund for payment of interest on the Bonds; and

(iv) any other moneys received by the Trustee, including moneys received by the Trustee pursuant to the Security Leases.

(b) Following payment of the principal or Redemption Price of and interest on the Bonds as and when due, the Trustee shall deposit in the Swap Payment Account, from moneys received from the City under the Security Leases (other than the Veterans Stadium Sublease), a sum sufficient to pay any Authority Swap payment then due and owing, and shall apply such funds to payment of such Authority Swap Payment.

## THE THIRD SUPPLEMENTAL INDENTURE AND THE FOURTH SUPPLEMENTAL INDENTURE

The Third Supplemental Indenture and the Fourth Supplemental Indenture are amended and restated in their entirety by the Fifth Supplemental Indenture, as summarized below.

## THE FIFTH SUPPLEMENTAL INDENTURE

### 2007 BONDS

**Calculation and Payment of lnterest of the 2007B Bonds; Change in Mode; Maximum Rate**

When a Short-Term Mode is in effect, interest shall be calculated on the basis of a 365/366 day year for the actual number of days elapsed. When a Long-Term Mode is in effect, interest shall be calculated on the basis of a 360 day year comprised of twelve 30-day months. Interest on the 2007B Bonds in the ARS Mode will be computed on the basis of the actual number of days elapsed computed on the basis of a 365/366 day year if the 2007B Bonds are in an Auction Period of 180 days or less. If the 2007B Bonds in the ARS Mode are in an Auction Period which is greater than 180 days, interest will be computed on the basis of a 360 day year of twelve 30-day months. Payment of interest on each 2007B Bond shall be made on each 2007B Interest Payment Date for such 2007B Bond for unpaid interest accrued during the Interest Accrual Period to the Owner of record of such 2007B Bond on the applicable Record Date.

The 2007B Bonds (other than the 2007B-4 Bond) in any Mode, other than a Fixed Rate Mode, may be changed to any other Mode at the times and in the manner hereinafter provided. Subsequent to such change in Mode (other than a change to a Fixed Rate Mode), the 2007B Bonds may again be changed to a different Mode at the times and in the manner hereinafter provided. A Fixed Rate Mode shall be in effect until the Maturity Date, or acceleration or redemption thereof prior to the 2007B Maturity Date, and may not be changed to any other Mode.

No 2007B Bonds shall bear interest at an interest rate higher than the Maximum Rate.

In the absence of manifest error, the determination of interest rates (including any determination of rates in connection with a New Mode) and Interest Periods by the Remarketing Agent or the Auction Agent and the record of interest rates maintained by the Paying Agent shall be conclusive and binding upon the Authority, Remarketing Agent, the Broker-Dealer, the Auction Agent, the Paying Agent, the Trustee, the Tender Agent, the Owners and the Beneficial Owners, subject to the provisions of the Indenture.

**Determination of lnterest Rates During the Daily Mode and the Weekly Mode**

The interest rate for the 2007B Bonds in the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the 2007B Bonds in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to the principal amount thereof, plus interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period.

(a) During the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 10:00 A.M. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The Remarketing Agent shall make the Daily Rate available no less frequently than 10:00 A.M. of each day by Electronic Means to any Beneficial Owner or Notice Party requesting such rate.

(b) During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 4:00P.M. on each Rate Determination Date. The Weekly Rate shall be in effect during the applicable Weekly Rate Period. The Remarketing Agent shall make the Weekly Rate available no later than 5:00P.M. on the Business Day following the Rate Determination Date by Electronic Means to any Beneficial Owner or Notice Party requesting such rate.

**Alternate Rates**

The following provisions shall apply in the event (i) the Remarketing Agent fails or is unable to determine the interest rate or Interest Period for the 2007B Bonds other than when the 2007B Bonds are in the ARS Mode, (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to the 2007B Bonds (or the selection by the Authority of the Interest Periods for 2007B Bonds in the Term Rate Mode) shall be held to be unenforceable by a court of law of competent jurisdiction or (iii) if the Remarketing Agent suspends its remarketing effort in accordance with the Remarketing Agreement. These provisions shall continue to apply until such time as the Remarketing Agent (or the Authority if applicable) again makes such determinations. In the case of clause (ii) above, the Remarketing Agent (or the Authority, if applicable) shall again make such determination at such time as there is delivered to the Remarketing Agent and the Authority an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determinations. The following shall be the methods by which the interest rates and, in the case of the CP and Term Rate Modes, the Interest Periods, shall be determined for the 2007B Bonds as to which any of the events described in clauses (i), (ii) or (iii) shall be applicable. Such methods shall be applicable from and after the date any of the events described in clauses (i), (ii) or (iii) first become applicable to the 2007B Bonds until such time as the events described in clauses (i), (ii) or (iii) are no longer applicable to the 2007B Bonds. These provisions shall not apply if the Authority fails to select an Interest Period for the 2007B Bonds in the Term Rate Mode for a reason other than as described in clause (ii) above.

If the 2007B Bonds are in the Daily Mode or the Weekly Mode, the 2007B Bonds shall bear interest during each subsequent Interest Period at the Alternate Rate in effect on the first day of such Interest Period.

**Changes in Mode**

Subject to the provisions of the Fifth Supplemental Indenture, the Authority may effect a change in Mode with respect to the 2007B Bonds (other than the 2007B-4 Bond) by following the procedures set forth in this Section. If a change in Mode will make the 2007B Bonds subject to Rule 15c2-12 promulgated under the Securities Act of 1934, as amended, it shall be a condition to such change in Mode that the Authority shall have executed a continuing disclosure undertaking satisfying the requirements of such Rule and shall cooperate with the Remarketing Agent, if any, the Broker-Dealer, if any, and any Underwriter (as defined in such Rule) in satisfying the requirements of such Rule.

Changes to Modes Other Than to Fixed Rate Mode. The 2007B Bonds (other than 2007B Bonds in the Fixed Rate Mode and the 2007B-4 Bond) may be changed from one Mode to another Mode as follows:

(a) Mode Change Notice; Notice to Owners. No later than a Business Day which is at least thirty (30) days (or such shorter time as may be agreed to by the Authority, the Trustee, the Tender Agent, the Remarketing Agent, the Auction Agent and the Broker-Dealer) preceding the proposed Mode Change Date, the Authority, at the direction of the City, shall give written notice to the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (for purposes of this Section, the "Current Mode") to another Mode (for purposes of this Section, the "New Mode") specified in such written notice. In the case of a change to a Term Rate Mode or from one Term Rate Mode to another Term Rate Mode, such notice to the Notice Parties shall also include a statement as to whether there will be a Liquidity Facility and/or Credit Enhancement in effect with respect to the 2007B Bonds following such change and the identity of any provider of such Liquidity Facility and/or Credit Enhancement. Notice of the proposed change in Mode shall be given by the Tender Agent to the Banks and the Owners of the 2007B Bonds not less than the fifteenth (15th) day next preceding the Mode Change Date provided that no notice need be given for a Mode Change Date occurring on the first Business Day following the last day of a Commercial Paper Rate Period or Term Rate Mode or on a Substitution Date. Notice of early substitution of a Liquidity Facility and/or Credit Enhancement for 2007B Bonds in the Term Rate Mode shall be given no less than five (5) days prior to the expiration date of such Liquidity Facility and/or Credit Enhancement. Each notice of a proposed change in Mode shall state:. (i) the New Mode and the Mode Change Date, and (A) in the case of a change in Mode to an ARS Mode, the length of the initial Auction Period and (B) in the case of a change in Mode to the Term Rate Mode, the length of the initial Interest Period, in each case as determined by the Authority at the direction of the City; (ii) that the 2007B Bonds will be subject to mandatory purchase on the Mode Change Date (regardless of whether all of the conditions to the change in the Mode are satisfied) and the Purchase Price of the 2007B Bonds; and (iii) if the Book-Entry System is no longer in effect, information with respect to required delivery of 2007B Bond certificates and payment of Purchase Price.

(b) Determination of Interest Rates. The New Mode shall commence on the Mode Change Date and the interest rate(s) shall be determined by the Remarketing Agent in the manner provided in the Fifth Supplemental Indenture, as applicable. Such determination shall be conclusive and binding upon the Authority, the Trustee, the Paying Agent, the Auction Agent and the Owners of the 2007B Bonds to which such rate will be applicable. Not later than 5:00P.M., New York City time, on the date of determination of the interest rate for the Initial Period, the Broker-Dealer shall notify the Trustee, the Authority and the Auction Agent of that rate by Electronic Means.

(c) Conditions Precedent. In the case of a change from the Daily Mode or Weekly Mode, the Mode Change Date shall be any Business Day; provided that in the case of a change from the Daily Mode or Weekly Mode to an ARS Mode, the Mode Change Date shall be a regularly scheduled 2007B Interest Payment Date for the Daily Mode or Weekly Mode. The Mode Change Date must be a date on which the Bonds are subject to optional redemption pursuant to the Fifth Supplemental Indenture. The following items shall have been delivered to the Trustee, the Paying Agent, the Remarketing Agent, if any, and the Broker-Dealer, if any, on or prior to the Mode Change Date: (1) if there is to be a Liquidity Facility or an Alternate Liquidity Facility or a Credit Enhancement or an Alternate Credit Enhancement delivered in connection with such change, the items described under Credit Enhancement and Liquidity Facility below; and (2) a Rating Confirmation Notice, or if the Mode Change Date is a Mandatory Purchase Date, a notice from the Rating Agencies of the rating(s) to be assigned the 2007B Bonds on such Mode Change Date. No 2007B Bonds may be converted to the Auction Period Rate when the 2007 Bonds are not held by a depository pursuant to a Book-Entry System. There shall be not less than $10,000,000 in aggregate principal amount of the 2007B Bonds bearing interest at an Auction Period Rate unless otherwise consented to by the Broker-Dealers.

A Change in Mode to the ARS Mode or the Term Rate Mode shall be conditioned upon receipt of a firm underwriting commitment or contract of purchase from an investment bank or other purchaser reasonably acceptable to the Credit Provider.

Change to Fixed Rate Mode. At the option of the Authority, the 2007B Bonds bearing interest at an Auction Period Rate, a Daily Rate, Weekly Rate, Commercial Paper Rates or Term Rates (in an amount which is a 2007B Authorized Denomination for the new Rate Period ) may be changed to the Fixed Rate Mode, as provided in this Section. On any Business Day which is at least thirty (30) days (or such shorter time as may be agreed to by the Authority, the Trustee and the Remarketing Agent, the Auction Agent and the Broker-Dealer, but in any event not less than the fifteenth (15th) day next preceding the Mode Change Date) before the proposed Mode Change Date, the Authority shall give written notice to the Notice Parties stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date. Such notice shall also state whether or not there shall be

Credit Enhancement with respect to the 2007B Bonds following such change and, if so, the identity of the Credit Provider. In addition, such notice shall state whether some or all of the 2007B Bonds to be converted shall be converted to Serial 2007B Bonds and, if so, the applicable Serial Maturity Dates and Serial Payments, all as determined pursuant to Section 2.12(b)(v) of the Fifth Supplemental Indenture. Any such change in Mode shall be made as follows:

(a) Mode Change Date. The Mode Change Date shall be any Business Day in the case of a change from the Daily Mode or Weekly Mode.

(b) Notice to Owners. Not less than the fifteenth (15th) day next preceding the Mode Change Date, the Paying Agent shall mail, in the name of the Authority, a notice of such proposed change to the Owners of the 2007B Bonds stating that the Mode will be changed to the Fixed Rate Mode and the proposed Mode Change Date. If the conversion is from a Mode other than an ARS Mode, such notice shall also state that such Owner is required to tender such Owner's 2007B Bonds for purchase on such proposed Mode Change Date regardless of whether all of the conditions to the change to the Fixed Rate Mode are satisfied.

(c) General Provisions Applying to Change to Fixed Rate Mode. The change to the Fixed Rate Mode shall not occur unless the following items shall have been delivered to the Authority, the Trustee, the Credit Provider, if any, the Remarketing Agent, if any, and the Broker-Dealer, if any, on or prior to the Mode Change Date: (1) a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Authority and the Trustee, (2) if there is to be Credit Enhancement delivered in connection with such change, the items required by the Fifth Supplemental Indenture in connection with the delivery of a Credit Enhancement, (3) notice from the Rating Agencies of the rating(s) to be assigned the 2007B Bonds on such Mode Change Date, and (4) a Change in Mode to the Fixed Rate Mode shall be conditioned upon receipt of a firm underwriting commitment or contract of purchase from an investment bank or other purchaser reasonably acceptable to the Credit Provider.

(d) Determination of Interest Rate. The Fixed Rate (or rates in the case of Serial 2007B Bonds) for the 2007B Bonds to be converted to the Fixed Rate Mode shall be established by the Remarketing Agent on the Rate Determination Date applicable thereto pursuant to the Fifth Supplemental Indenture. Such Rate shall remain in effect until the 2007B Maturity Date. Such determination shall be conclusive and binding upon the Authority, the Trustee, the Paying Agent, the Credit Provider, if any, and the Owners of the 2007B Bonds to which such rate will be applicable. Not later than 5:00P.M., New York City time, on the date of determination of the Fixed Rate(s), the Remarketing Agent shall notify the Trustee, the Paying Agent, the Credit Provider and the Authority of such rate(s) by telephone.

(e) Serialization and Sinking Fund: Price. Upon conversion of the 2007B Bonds to the Fixed Rate Mode, the 2007B Bonds shall be remarketed at par, shall mature on the same maturity date(s) and be subject to the same mandatory sinking fund redemption, if any, and optional redemption provisions as set forth in the Existing Indenture and this Fifth Supplemental Indenture for any prior Mode; provided, however, that if the Authority shall deliver to the Trustee a Favorable Opinion of Bond Counsel, the Authority may elect to (A) have some of the 2007B Bonds be Serial 2007B Bonds and some subject to sinking fund redemption even if such 2007B Bonds were not Serial 2007B Bonds or subject to mandatory sinking fund redemption prior to such change, (B) change the optional redemption dates and/or premiums (if any) set forth in Article V of the Fifth Supplemental Indenture, and/or (C) sell some or all of the 2007B Bonds at a premium or a discount to par.

Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions concerning a change in Mode described above have not been satisfied by the applicable Mode Change Date, then the New Mode shall not take effect and any mandatory purchase shall be made on such date if notice has been sent to the Owners stating that such 2007B Bonds would be subject to mandatory purchase on such date. If the failed change in Mode was from the Daily Mode, the 2007B Bonds shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the 2007 Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the Fifth Supplemental Indenture on and as of the failed Mode Change Date.

Rescission of Election. Notwithstanding anything herein to the contrary, the Authority may rescind any election by it to change a Mode as described above prior to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date; provided that in the case of a conversion to an ARS Mode such rescission must occur prior to the setting of the Auction Period Rate by the Broker-Dealer. If the Tender Agent

receives notice of such rescission prior to the time the Tender Agent has given notice to the Holders of the 2007B Bonds, then such notice of change in Mode shall be of no force and effect. If the Tender Agent receives notice from the Authority of rescission of a Mode change after the Tender Agent has given notice thereof to the Holders of the 2007B Bonds, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date except if the conversion is from the ARS Mode. If the proposed change in Mode was from the CP Mode, the 2007B Bonds shall remain in the CP Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the proposed Mode Change Date in accordance with Section 2.07 of the Fifth Supplemental Indenture. If the proposed change in Mode was from the Daily Mode, the 2007B Bonds shall remain in the Daily Mode, and if the proposed change in Mode was from the Weekly Mode, the 2007B Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of Section 2.08 of the Fifth Supplemental Indenture on and as of the proposed Mode Change Date.

## PURCHASE OF 2007B BONDS; PAYMENT OF 2007B BONDS

### Optional Tenders of 2007B Bonds in the Daily Mode or the Weekly Mode

Subject to certain provisions of the Fifth Supplemental Indenture concerning Book-Entry Tenders, the Beneficial Owners of 2007B Bonds in a Daily Mode or a Weekly Mode may elect to have their 2007B Bonds (or portions of those 2007B Bonds in amounts equal to a 2007B Authorized Denominations) purchased on any Business Day at a price equal to the Purchase Price, upon delivery of a Tender Notice to the Tender Agent by the Tender Notice Deadline. Promptly, but during the Daily Mode by no later than 11:15 A.M., upon receipt of a Tender Notice, the Tender Agent shall notify the Remarketing Agent and provide the Remarketing Agent with a copy of such Tender Notice.

### Mandatory Purchase on Mandatory Purchase Date

The 2007B Bonds shall be subject to mandatory purchase on each Mandatory Purchase Date. Subject to the next sentence, the Tender Agent shall give notice of such mandatory purchase by mail to the Owners of the 2007B Bonds subject to mandatory purchase no less than 15 Business Days nor more than 20 Business Days prior to the Mandatory Purchase Date. Any notice shall state the Mandatory Purchase Date, the Purchase Price, and that interest on 2007B Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any 2007 Bond shall not affect the validity of the mandatory purchase of any other 2007 Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner or Beneficial Owner.

### Remarketing of 2007B Bonds; Notices

The Remarketing Agent shall use its best efforts to offer for sale at an interest rate and price (equal to the principal amount thereof plus accrued interest to the Purchase Date) on the Purchase Date in accordance with the Fifth Supplemental Indenture: (a) all 2007B Bonds or portions thereof as to which notice of tender has been given; and (b) all 2007B Bonds required to be purchased on a Mandatory Purchase Date described in clauses (i), (ii), (iii) or (iv) of the definition thereof; and (c) any Liquidity Provider Bonds (i) purchased on a Purchase Date described in clause (a) or (b) of this paragraph, or (ii) with respect to which the Liquidity Provider has provided written notice to the Trustee, the Tender Agent and the Remarketing Agent that it has reinstated the Available Amount, or (iii) with respect to which an Alternate Liquidity Facility and Alternate Credit Enhancement is in effect (if such funds were secured by a Credit Enhancement prior to becoming Liquidity Provider Bonds which Credit Enhancement is no longer in effect), or (iv) which are being marketed as Fixed Rate Bonds. The Remarketing Agent will not remarket 2007B Bonds to the Authority or the City. In connection with the remarketing of any 2007B Bonds with respect to which notice of redemption or notice of mandatory purchase has been given, the Remarketing Agent will notify each Person to which such 2007B Bonds are remarketed of such notice of redemption or notice of mandatory purchase. Anything in the Existing Indenture or the Fifth Supplemental Indenture to the contrary notwithstanding, if there shall have occurred and be continuing either a Credit Provider Failure with respect to the 2007B Bonds or a Liquidity Provider Failure, the Remarketing Agent shall not remarket and deliver any 2007B Bonds. All other provisions of the Existing Indenture or the Fifth Supplemental Indenture, including without limitation, those relating to the setting of interest rates and Interest Periods and mandatory and optional purchases, shall remain in full force and effect during the continuance of such Event of Default.

Notice of Remarketing. On each date on which a 2007B Bond is to be purchased: (a) the Remarketing agent shall notify by Electronic Means the Tender Agent by 11:30 A.M. of the principal amount of tendered 2007B Bonds it has remarketed; (b) the Remarketing Agent shall cause the proceeds of the remarketing by such Remarketing Agent of tendered 2007B Bonds against delivery thereof to be paid to the Tender Agent in immediately available funds not later than 11:30 A.M. on the Purchase Date for such 2007B Bonds; (c) the Tender Agent shall notify the Trustee by no later than 11 :45 A.M. of the amount by which the Purchase Price of the tendered 2007B Bonds exceeds the amount of remarketing proceeds actually received by the Tender Agent pursuant to clause (b); (d) to the extent the Tender Agent has received the remarketing proceeds described in clause (b) above, the Remarketing Agent shall notify the Tender Agent by Electronic Means not later than 12:00 P.M. of such information as may be necessary to register and deliver 2007B Bonds remarketed with respect thereto; and (e) if the 2007B Bonds are no longer in the Book-Entry System, the Tender Agent shall authenticate new 2007B Bonds for the respective purchasers thereof, which shall be available for pick-up by the Remarketing Agent not later than 2:30 P.M.

Draw on Liquidity Facility. On each date on which a 2007B Bond is to be purchased, the Trustee (if the beneficiary of the Liquidity Facility) or the Tender Agent (if the beneficiary of the Liquidity Facility) shall draw on the existing Liquidity Facility (or if no Liquidity Facility is in effect, request funds from the Authority) by 12:00 P.M. in an amount equal to the difference between (i) the Purchase Price of all tendered 2007B Bonds required to be purchased (other than Liquidity Provider Bonds and Authority Bonds) and (ii) the amount of remarketing proceeds delivered to the Tender Agent resulting from a partial remarketing. If the Trustee is the beneficiary of the Liquidity facility and does not receive notice from the Tender Agent by 11:30 A.M. as described above, the Trustee will draw on the existing Liquidity Facility the full amount of the Purchase Price for all tendered 2007B Bonds.

**Source of Funds for Purchase of2007B Bonds**

By 2:30 P.M. on the date on which a 2007B Bond is to be purchased, and except as set forth in Section 3.06(b)(ii) of the Fifth Supplemental Indenture, the Tender Agent shall purchase tendered 2007B Bonds from the tendering Owners at the applicable Purchase Price by wire transfer in immediately available funds . Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and none of the Tender Agent, the Trustee nor the Remarketing Agent shall be obligated to provide funds from any other source: (a) immediately available funds on deposit in the Remarketing Proceeds Account; (b) immediately available funds on deposit in the Liquidity Facility Purchase Account resulting from a drawing on the Liquidity Facility then in effect; and (c) moneys of the Authority on deposit in the Authority Purchase Account.

If no Liquidity Facility is in effect, then the Authority shall be obligated to deposit amounts into the Authority Purchase Account sufficient to pay the Purchase Price to the extent that amounts on deposit in the Remarketing Proceeds Account are insufficient therefor. If a Liquidity Facility is in effect, then the Authority shall be obligated to deposit amounts into the Authority Purchase Account sufficient to pay the Purchase Price to the extent that amounts on deposit in the Remarketing Proceeds Account and the Liquidity Facility Purchase Account are insufficient therefor promptly upon receipt of notice provided in Section 3.03(d) of the Fifth Supplemental Indenture but not later than 2:30P.M.

**Delivery of 2007B Bonds**

On each date on which a 2007B Bond is to be purchased, such 2007B Bond, if in the Book-Entry System shall be delivered as follows: (a) 2007B Bonds sold by the Remarketing Agent and purchased by the Tender Agent with moneys described in Section 3.04(a) of the Fifth Supplemental Indenture shall be delivered by the Remarketing Agent to the purchasers of such 2007B Bonds by 2:30P.M.; and (b) 2007B Bonds purchased by the Tender Agent with moneys described in Section 3.04(b) of the Fifth Supplemental Indenture shall be registered immediately in the name of the Liquidity Provider or its nominee (which may be DTC) on or before 2:30P.M.; and (c) 2007B Bonds purchased by the Authority with moneys described in Section 3 .04( c) of the Fifth Supplemental Indenture shall be registered, immediately in the name of the Authority or its nominee on or before 2:30P.M. 2007B Bonds so owned by the Authority shall continue to be Outstanding under the terms of the Existing Indenture and the Fifth Supplemental Indenture and be subject to all of the terms and conditions of the Existing Indenture and the Fifth Supplemental Indenture and shall be subject to remarketing by the Remarketing Agent.

**Credit Enhancement and Liquidity Facility**

The Authority, at the direction of the City, may provide an Alternate Credit Enhancement or Alternate Liquidity Facility, in either case, (x) for 2007B Bonds in Daily or Weekly Mode on any Business Day and (y) for 2007B Bonds in any other Mode on a date on which such 2007B Bonds are subject to optional redemption pursuant to the Fifth Supplemental Indenture, but in no event later than the fifth (5th) Business Day prior to the Expiration Date of the Credit Enhancement or Liquidity Facility then in effect. The Authority shall give the Notice Parties written notice of the proposed substitution of an Alternate Credit Enhancement or Alternate Liquidity Facility no less than two (2) Business Days prior to the date on which the Trustee is required to provide notice of the proposed substitution to the Owners of such 2007B Bonds. The Trustee shall give notice of such Substitution Date in the same manner as notice of redemption is required to be provided pursuant to the Fifth Supplemental Indenture. On or before such Substitution Date, there shall be delivered to the Trustee or the Tender Agent, as applicable: (a) the Alternate Credit Enhancement or the Alternate Liquidity Facility in substitution for the Credit Enhancement or Liquidity Facility then in effect; provided, however, that upon any failure to remarket 2007B Bonds subject to mandatory tender in connection with the delivery of such Alternate Credit Enhancement or Liquidity Facility, funds to pay the Purchase Price shall only be drawn from the then-existing Liquidity Facility and the Trustee shall not surrender the then existing Liquidity Facility to the provider thereof until it has received the proceeds of such draw; (b) a Favorable Opinion of Bond Counsel; (c) a written Opinion of Counsel for the provider of the Alternate Credit Enhancement or Alternate Liquidity Facility, as applicable, to the effect that such Alternate Credit Enhancement or Alternate Liquidity Facility is a valid, legal and binding obligation of the provider thereof; (d) either (i) Liquidity Facility covering the Purchase Price of 2007B Bonds to be purchased on the Substitution Date, or (ii) a firm underwriting commitment or contract of purchase from an investment bank or other purchaser reasonably acceptable to the Credit Provider; (e) with respect to Alternate Credit Enhancement relating to the 2007A Bonds or the 2007B Bonds in the Fixed Rate Mode, the Term Rate Mode, the ARS Mode or the CP Mode, a Rating Confirmation Notice; and (f) unless waived by such entity, written evidence satisfactory to the Credit Provider and the Liquidity Provider of the provision for purchase from the existing Liquidity Provider of all Liquidity Provider Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due to the Credit Provider and the Liquidity Provider under the Reimbursement Agreement(s) on or before the effective date of such Alternate Credit Enhancement or Alternate Liquidity Facility.

Upon the satisfaction of the conditions described in the preceding sentence, the Trustee shall accept such Alternate Credit Enhancement or Alternate Liquidity Facility on the close of business on the Substitution Date and shall surrender the Credit Enhancement or Liquidity Facility then in effect to the provider thereof on the Substitution Date. If any condition to the substitution is not satisfied, the substitution shall not occur, but the affected 2007B Bonds shall remain subject to mandatory purchase on the proposed Substitution Date.

**Purchase Fund**

The Fifth Supplemental Indenture establishes and maintains with the Tender Agent, as agent for the Trustee, a separate fund designated the "Purchase Fund ." The Tender Agent shall further establish within the Purchase Fund to be designated the "Liquidity Facility Purchase Account," the "Remarketing Proceeds Account" and the "Authority Purchase Account," respectively and within such account, separate subaccounts in respect to the 2007B-l Bonds, the 2007B-2 Bonds and the 2007B-3 Bonds.

Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of a 2007B Bond on the date such 2007B Bond is to be purchased, the Tender Agent shall deposit such proceeds in the subaccount for such 2007B Bond in the Remarketing Proceeds Account for application to the Purchase Price of such 2007B Bond. Notwithstanding the foregoing, upon the receipt of the proceeds of a remarketing of Liquidity Provider Bonds, the Tender Agent shall immediately pay such proceeds to the Liquidity Provider to the extent of any amount owing to the Liquidity Provider, as certified to the Tender Agent by the Liquidity Provider.

Liquidity Facility Purchase Account. Upon receipt from the Trustee of the immediately available funds transferred to the Tender Agent pursuant to Section 3 .08(b) of the Fifth Supplemental Indenture, the Tender Agent shall deposit such money in the appropriate subaccount of the Liquidity Facility Purchase Account for application to the Purchase Price of the related 2007B Bonds to the extent that the moneys on deposit in such subaccount the Remarketing Proceeds Account shall not be sufficient. Any amounts deposited in the Liquidity Facility Purchase Account and not needed with respect to the Purchase Price for any 2007B Bonds shall be immediately returned to the Liquidity Provider.

Authority Purchase Account. Upon receipt of Funds from the Authority pursuant to Section 3.04(c) of the Fifth Supplemental Indenture, the Tender Agent shall deposit such Funds in the appropriate subaccount of the Authority Purchase Account for application to the Purchase Price of the related 2007B Bonds. Any amounts deposited in the Authority Purchase Account and not needed with respect to the Purchase Price for any 2007B Bonds shall be immediately refinanced to the Authority.

No Investment of Liquidity Facility Purchase Account and Remarketing Proceeds Account. Amounts held in the Liquidity Facility Purchase Account and the Remarketing Proceeds Account by the Paying Agent shall be held uninvested without liability for interest and separate and apart from all other funds and accounts.

**Insufficient Funds for Tenders**

If moneys sufficient to pay the Purchase Price of all Tendered 2007B Bonds to be purchased on any Purchase Date are not available (i) no purchase shall be consummated on such Purchase Date; (ii) all Tendered 2007B Bonds shall be returned to the Owners thereof; and (iii) all remarketing proceeds shall be returned to the Remarketing Agent for return to the Persons providing such moneys.

All 2007B Bonds that are tendered and not remarketed shall bear interest at the Alternate Rate plus 3% during the period of time from and including the applicable Purchase Date to (but not including) the date that all such Tendered 2007B Bonds are successfully remarketed (the "Delayed Remarketing Period"). The first Rate Determination Date for purposes of determining the Alternate Rate shall be the Purchase Date.

The Authority may direct the conversion of the Tendered 2007 Bonds to a different Mode during the Delayed Remarketing Period in accordance with certain provisions of the Fifth Supplemental Indenture concerning a Change in Mode.

The Remarketing Agent shall continue to use its best efforts to remarket the Tendered 2007B Bonds. Once the Remarketing Agent has advised the Trustee and the Tender Agent in writing that it has a good faith belief that it is able to remarket all of the Tendered 2007B Bonds, the Trustee will give notice by mail to the Holders of such Tendered 2007B Bonds not later than five Business Days prior to the Purchase Date, which notice will state (i) the Mode applicable to such Tendered 2007B Bonds from and after the Purchase Date as determined by the Authority and communicated in writing to the Trustee and the Tender Agent; (ii) that such Tendered 2007B Bonds will be subject to mandatory tender for purchase on the Purchase Date; (iii) the procedures for such mandatory tender; (iv) the Purchase Price of such Tendered 2007B Bonds; and (v) the consequences of a failed remarketing.

During the Delayed Remarketing Period, the Trustee may, upon the written direction of the Authority, apply amounts on deposit in the 2007 Bond Redemption Account to the redemption of such Tendered 2007B Bonds, as a whole or in part on any Business Day during the Delayed Remarketing Period, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium. Notwithstanding anything in this Fifth Supplemental Indenture to the contrary, the Trustee shall give five (5) Business Days notice of such redemption to the Holders of the 2007B Bonds to be redeemed.

During the Delayed Remarketing Period, interest on such Tendered 2007B Bonds shall be paid to the Holders thereof (i) the first Business Day of each calendar month occurring during the Delayed Remarketing Period and (ii) on the last day of the Delayed Remarketing Period.

## REVENUES, THEIR APPLICATION AND CERTAIN FUNDS

**Receipts and Revenues of the Authority**

Confirming the granting clauses of the Existing Indenture and hereof, the Authority hereby assigns, transfers and sets over to the Trustee, as security, all the right, title and interest of the Authority in and to the Trust Estate, and the Authority directs payment to the Trustee of the payments under the Security Leases constituting a portion of the Trust Estate. In order to avoid any doubt, the Authority confirms that the Construction Fund is not being pledged as security for the 2007 Bonds or the Swap Agreement and does not constitute part of the "Trust Estate" for purposes of the Fifth Supplemental Indenture.

**Bond Redemption Account**

The Trustee has established as a part of the Bond Fund, a 2007 Bond Redemption Account and will transfer funds into such 2007 Bond Redemption Account from the Bond Fund as required to redeem 2007 Bonds on the dates specified under the Indenture or in the 2007 Bonds. The Trustee uses the 2007 Bond Redemption Account for each series to purchase or redeem the 2007 Bonds of such series. If at any time all of the 2007 Bonds of a series are purchased, redeemed or paid, the Trustee will make no further transfers to the 2007 Bond redemption Account for such series and will transfer any balance then in such account to the Bond Fun d. Whenever 2007 Bonds are to be purchased out of any such 2007 Bond Redemption Account, if the Authority, upon the direction of the City, notifies the Trustee in writing that the Authority wishes to arrange for such purchase, the Trustee will comply with the Authority's arrangements provided they conform to the Indenture.

2007 Bond Redemption Account. The Trustee shall apply the amounts required to be transferred to the 2007 Bond Redemption Account (less any moneys applied to the purchase of the 2007B Bonds pursuant to the next sentence hereof) on the Sinking Fund Installment Date for the 2007B Bonds in each of the years 2015 through 2030, inclusive to the redemption by lot, in the amounts and the manner and on the dates set forth in the 2007B Bonds and Article V of the Fifth Supplemental Indenture, of the 2007B Bonds at a Redemption Price of 100% of the principal amount thereof. Upon the written direction of the Authority, acting at the written direction of the City, not less than forty-five (45) days prior to a redemption date, the Trustee may apply moneys in said account to the purchase of 2007B Bonds at prices exclusive of accrued interest not higher than the principal amount thereof, in lieu of redemption as aforesaid, provided that firm purchase commitments can be made before notice of redemption would otherwise be required to be given. In the event of purchases at less than the principal amount thereof, the difference between the amount in said account representing the principal amount of the 2007B Bonds purchased and the purchase price shall be transferred to the Bond Fund. Moneys and investments in the 2007 Bond Redemption Account, until applied as provided herein, shall be held in trust solely for the benefit of the Holders of the 2007B Bonds.

Accrued interest on purchased 2007B Bonds shall be paid from the Bond Fund, provided that the Trustee, at the written direction of the Authority, shall pay such accrued interest from the moneys in the 2007 Bond Redemption Account pending maturity of investments of the Bond Fund (and in such case upon the maturity of investments in the Bond Fund, the Trustee shall transfer to the 2007 Bond Redemption Account from the Bond Fund the amount of accrued interest on purchased 2007B Bonds so paid from such Bond Redemption Account). Purchase of2007 Bonds by the City. Pursuant to the Security Leases, the City may, not less than 45 days before any Sinking Fund Installment Date, deliver to the Trustee 2007 Bonds of the series and maturity, a portion of which is required to be redeemed by the Trustee on such Sinking Fund Installment Date, and, upon such delivery, the rentals required to effect such redemption otherwise due from the City shall be reduced by the aggregate principal amount of the Bonds so delivered. Upon any such delivery of 2007 Bonds, the principal amount of the 2007 Bonds required, by the provisions of the foregoing paragraph, to be redeemed by the Trustee on such Sinking Fund Installment Date shall also be reduced by the aggregate principal amount of the Bonds of such series so delivered.

**2001B Bond Redemption Fund**

The Trustee has established with a 2001B Bond Redemption Fund under and pursuant to the Indenture. Moneys deposited in the 2001B Bond Redemption Fund pursuant to the Indenture are invested and applied in the manner and at the times set forth in one or more escrow deposit agreements for the payment of the 2001 B Bonds between the Authority and the Trustee, as escrow agent.

**Paying Agent**

The Authority shall appoint the Paying Agent for the purpose of acting as paying agent for the 2007 Bonds as provided by the Fifth Supplemental Indenture. The Paying Agent shall be a national banking association with trust powers, a bank and trust company or a Trust company. The Paying Agent shall act as paying agent for the 2007 Bonds as provided in this Fifth Supplemental Indenture. The Paying Agent shall signify its acceptance of the duties and obligations imposed upon it thereunder by its written instrument of acceptance addressed to the Authority and the Trustee and delivered to such Persons, under which the Paying Agent shall agree to: (a) hold all sums delivered to it by the Trustee for the payment of principal or Redemption Price of, premium, if any, on and interest on the 2007 Bonds in trust for the benefit of the respective Owners until such sums shall be paid to such Owners or otherwise disposed of as provided in the Fifth Supplemental Indenture; and (b) keep such books and records as shall

be consistent with prudent corporate trust industry practice and make such books and records available for inspection by the Trustee and the Authority at all reasonable times upon prior written request.

**Remarketing Agent**

The Remarketing Agent shall be appointed pursuant to a Remarketing Agreement to remarket 2007 Bonds pursuant to the Existing Indenture and the Fifth Supplemental Indenture and perform the other duties of the Remarketing Agent described thereunder, and to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Notice Parties at all reasonable times. The Remarketing Agent shall act as such under the Remarketing Agreement.

**Tender Agent**

The Tender Agent shall be a national banking association with trust powers, a bank and trust company or a trust company. The Authority shall appoint any successor Tender Agent for the 2007 Bonds, subject to the conditions of the Fifth Supplemental Indenture. If the Tender Agent is not also the Trustee, the Tender Agent shall designate its Payment Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument of acceptance delivered to the Authority, the Trustee, the Remarketing Agent, the Credit Provider and the Liquidity Provider in which the Tender Agent will agree, particularly: (a) to hold all 2007 Bonds tendered to it for purchase, as agent and bailee of, and in trust for the benefit of, the respective owners thereof until moneys representing the purchase price of such 2007 Bonds shall have been delivered to or for the account of or to the order of such owners; (b) to hold all moneys (without investment thereof or right of lien thereon, and without liability for interest) delivered to it thereunder for the purchase of 2007 Bonds pursuant to Section 3.03 of the Fifth Supplemental Indenture as agent and bailee of, and in trust for the benefit of, the Person which shall have so delivered such moneys until the 2007 Bonds purchased with such moneys shall have been delivered to or for the account of such Person and thereafter to hold such moneys (without investment thereof or right of lien thereon and without liability for interest) as agent and bailee of, and in trust for the benefit of, the Person which shall be entitled thereto on the Purchase Date; (c) to hold 2007 Bonds for the account of the Liquidity Provider and for the account of the Authority; and (d) to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Authority and the Trustee at all reasonable times.

The Tender Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least 30 days notice to the Authority, the Trustee, the Liquidity Provider, the Credit Provider and the Remarketing Agent. In the event that the Authority shall fail to appoint a successor Tender Agent, upon the resignation or removal of the Tender Agent, the Trustee shall either appoint a Tender Agent or itself act as Tender Agent until the appointment and acceptance of a successor Tender Agent. The Tender Agent may be removed at any time by an instrument signed by the Authority, filed with the Trustee, the Remarketing Agent, the Credit Provider and the Liquidity Provider, if any. In the event of the resignation or removal of the Tender Agent, the Tender Agent shall deliver any 2007 Bonds and moneys held by it in such capacity to its successor, or, if there is no successor, to the Trustee.

## MISCELLANEOUS

**Confirmation of the Existing Indenture**

Except as amended and supplemented by the Fifth Supplemental Indenture, the Existing Indenture is ratified and confirmed in all respects and is applicable in all respects to the 2007 Bonds, the Owners thereof and the security therefor.

**Amendment of the Fifth Supplemental Indenture**

The Fifth Supplemental Indenture may be amended or supplemented from time to time in the manner and to the extent provided in Article XII of the Original Indenture.

**No Personal Recourse**

Notwithstanding any provision or obligation to the contrary herein set forth, no provision in this Fifth Supplemental Indenture or in any instruments evidencing the 2007 Bonds, shall be construed so as to give rise to

any personal liability of the Authority or its members, officers, employees, agents or representatives (collectively, the "Group"), or to give rise to a charge upon the general credit of the Authority or any member of the Group. Any pecuniary liability of the Authority or any member of the Group hereunder or thereunder, and under any constitutional provision, statute or theory of law, including contract or tort relating hereto or thereto, shall be limited exclusively to its interest in the Trust Estate, and the lien of any judgment with respect to any of the foregoing shall be restricted thereto. The Authority and the Group shall not be required to do any act whatsoever or exercise any diligence whatsoever to mitigate the damages to the Trustee or the Owners if an Event of Default shall occur under the Indenture. In furtherance of the above, and not by way of limitation, no recourse under or upon any obligation, covenant or agreement contained in this Fifth Supplemental Indenture or in any Obligation hereby secured, or under any judgment obtained against the Authority or any member of the Group, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise, or under any circumstances, under or independent of this Fifth Supplemental Indenture, shall be had against any member of the Group as such, past, present or future, of the Authority for the payment for or to the Authority or any receiver thereof, or for or to the Owners of any 2007 Bonds issued hereunder or otherwise, of any sum that may be due and unpaid by the Authority upon any such 2007 Bonds. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such member of the Group as such, to respond by reason of any act or omission on his part or otherwise, for the payment for or to the Owners of the 2007 Bonds issued hereunder or otherwise, of any sum that may remain due and unpaid upon the 2007 Bonds and hereby secured, or any of them, is hereby expressly waived and released as a condition of and consideration for the execution of this Fifth Supplemental Indenture and the issuance of such 2007 Bonds.

The Authority and each member of the Group shall have no liability for any failure to fulfill, or breach by the City of, the City's obligations under the Security Leases or otherwise.

The 2007 Bonds issued or secured hereunder shall be limited obligations of the Authority payable solely from those rentals due under the Security Leases which have been assigned as provided herein, the Trust Estate and as otherwise provided herein and in the Original Indenture.

## THE SIXTH SUPPLEMENTAL TRUST INDENTURE

## THE 2014A BONDS

### Calculation and Payment of Interest on the 2014A Bonds

(a) LIBOR Interest Rate. The Calculation Agent shall determine the LIBOR Interest Rate on each Computation Date, and such rate shall become effective on the LIBOR Index Reset Date next succeeding the Computation Date and interest at such rate shall accrue each day during the related LIBOR Rate Period, commencing on and including the first day of such period to but excluding the last day of such period. The LIBOR Interest Rate shall be rounded, if necessary, to the nearest one ten-thousandth of a percentage point (i.e., 9.87651% being rounded down to 9.8765%, and 9.87655% being rounded up to 9.8766%). Notwithstanding the foregoing, the LIBOR Interest Rate for the LIBOR Rate Period commencing on and including the 2014A Series Issue Date to but not including June 2, 2014, shall be equal to 0.7558% and interest accruing on the 2014A Bonds during such LIBOR Rate Period shall be payable on June 2, 2014, the initial 2014A Interest Payment Date.

(b) Taxable Rate. In the event a Determination of Taxability occurs, the 2014A Bonds shall bear interest at the Taxable Rate (subject to adjustment to the Default Rate, if applicable) during the Taxable Period.

(c) Default Rate. Notwithstanding the foregoing provisions of this Section, from and after the occurrence of any Event of Default under the Continuing Covenant Agreement, the interest rate for 2014A Bonds shall be established at a rate at all times equal to the greater of (i) the Default Rate and (ii) the interest rate that would otherwise be applicable to the 2014A Bonds but for the provisions of this paragraph, payable on demand to the 2014A Bond Purchaser.

(d) Maximum Rate. No 2014A Bond shall bear interest at an interest rate higher than the Maximum Rate. If the amount of interest payable for any period in accordance with the terms of the Sixth Supplemental Indenture or the 2014A Bonds exceeds the amount of interest that would be payable for such period

had interest for such period been calculated at the Maximum Rate, then interest for such period shall be payable in an amount calculated at the Maximum Rate.

(e) Amortization Period. During the Amortization Period, the 2014A Bonds shall bear interest as further set forth in Section 2.02(b) of the Continuing Covenant Agreement

(f) Failure to Determine Rate. If for any reason the Calculation Agent fails to determine any Index Interest Rate as provided in the Sixth Supplemental Indenture, the Index Interest Rate then in effect shall remain in effect until so determined by the Calculation Agent.

(g) Determinations Conclusive. In the absence of manifest error, the determination of any Index Interest Rate by the Calculation Agent shall be conclusive and binding upon the City, the Trustee and the Owners of the 2014A Bonds.

## PURCHASE OF 2014A BONDS

### Mandatory Purchase on Mandatory Purchase Date

The 2014A Bonds shall be subject to mandatory purchase on each Mandatory Purchase Date. The Tender Agent shall give notice of such mandatory purchase by mail to the Owners of the 2014A Bonds subject to mandatory purchase no less than 15 Business Days nor more than 20 Business Days prior to the Mandatory Purchase Date. Any notice shall state the Mandatory Purchase Date, the Purchase Price, and that interest on 2014A Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any 2014A Bond shall not affect the validity of the mandatory purchase of any other 2014A Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner or Beneficial Owner.

### Remarketing of 2014A Bonds

(a) Appointment of Remarketing Agent. In connection with any Mandatory Purchase Date, the City may appoint a Remarketing Agent for the 2014A Bonds. Each Remarketing Agent shall designate its Office and signify its acceptance of the duties and obligations imposed upon it under the Sixth Supplemental Indenture in the Remarketing Agreement, a copy of which shall be delivered to the Trustee and the Tender Agent.

(b) Remarketing of 2014A Bonds. If the City appoints a Remarketing Agent for the remarketing of the 2014A Bonds following any Mandatory Purchase Date, the City shall determine the duration of the Index Interest Rate Period to be effective for the 2014A Bonds following such remarketing. The new Applicable Spread to be effective following such remarketing shall be determined by the Remarketing Agent as the amount that would result in (based upon tax exempt obligations comparable, in the judgment of the Remarketing Agent, to the 2014A Bonds and known to the Remarketing Agent to have been priced or traded under then-prevailing market conditions) the minimum Applicable Spread that would enable 2014A Bonds bearing interest at the LIBOR Interest Rate to be sold on such date at a price equal to the principal amount thereof.

(c) Notice of Remarketing: Registration Instructions: New 2014A Bonds. On each date on which a 2014A Bond is to be purchased: (i) the Remarketing Agent shall notify by Electronic Means the Tender Agent by 11:00 A.M. of the principal amount of tendered 2014A Bonds it has remarketed; (ii) the Remarketing Agent shall cause the proceeds of the remarketing by such Remarketing Agent of tendered 2014A Bonds against delivery thereof to be paid to the Tender Agent in immediately available funds not later than 11:30 A.M., on the Purchase Date for such 2014A Bonds; (iii) the Tender Agent shall notify the Trustee by no later than 11:45 A.M. of the amount by which the Purchase Price of the tendered 2014A Bonds exceeds the amount of remarketing proceeds actually received by the Tender Agent pursuant to clause (ii); (iv) to the extent the Tender Agent has received the remarketing proceeds described in clause (ii) above the Remarketing Agent shall notify the Tender Agent by Electronic Means not later than 12:00 P.M. of such information as may be necessary to register and deliver 2014A Bonds remarketed with respect thereto; and (v) if the 2014A Bonds are no longer in the Book-Entry System, the Tender Agent shall authenticate new 2014A Bonds for the respective purchasers thereof, which shall be available for pick-up by the Remarketing Agent not later than 2:30 P.M.

**Source of Funds for Purchase of 2014A Bonds**

By 2:30 P.M. on the date on which a 2014A Bond is to be purchased, the Tender Agent shall purchase tendered 2014A Bonds from the tendering Owners at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and none of the Tender Agent, the Trustee nor the Remarketing Agent shall be obligated to provide funds from any other source: (a) immediately available funds on deposit in the Remarketing Proceeds Account; and (b) moneys of the Authority on deposit in the Authority Purchase Account. The Authority shall be obligated to deposit amounts into the Authority Purchase Account sufficient to pay the Purchase Price to the extent that amounts on deposit in the Remarketing Proceeds Account are insufficient therefor.

**Delivery of 2014A Bonds**

On each date on which a 2014A Bond is to be purchased, such 2014A Bond, if in the Book-Entry System shall be delivered as follows: (a) 2014A Bonds sold by the Remarketing Agent and purchased by the Tender Agent with moneys described in Section 3.03(a) of the Sixth Supplemental Indenture shall be delivered by the Remarketing Agent to the purchasers of such 2014A Bonds by 3:00 P.M.; and (b) 2014A Bonds purchased by the Authority with moneys described in Section 3.03(b) of the Sixth Supplemental Indenture shall be registered in the name of the Authority or its nominee at or before 3:00 P.M. Any 2014A Bonds so owned by the Authority shall continue to be Outstanding under the terms of the Indenture and be subject to all of the terms and conditions of the Indenture and shall be subject to remarketing by the Remarketing Agent.

**Purchase Fund**

The Sixth Supplemental Indenture establishes and maintains with the Tender Agent, as agent for the Trustee, a separate fund under the Indenture designated the "Purchase Fund" and within the Purchase Fund accounts designated "Remarketing Proceeds Account" and "Authority Purchase Account." The Tender Agent shall establish, within each such account, separate subaccounts in respect of the 2014A Bonds.

(a) Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of a 2014A Bond on the date such 2014A Bond is to be purchased, the Tender Agent shall deposit such proceeds in the subaccount for such 2014A Bond in the Remarketing Proceeds Account for application to the Purchase Price of such 2014A Bond.

(b) Authority Purchase Account. Upon receipt of funds from the Authority pursuant to Section 3.03(b) of the Sixth Supplemental Indenture, the Tender Agent shall deposit such Funds in the appropriate subaccount of the Authority Purchase Account for application to the Purchase Price of the 2014A Bonds. Any amounts deposited in the Authority Purchase Account and not needed with respect to the Purchase Price for any 2014A Bonds shall be immediately refunded to the Authority.

**Insufficient Funds for Tenders**

(c) If moneys sufficient to pay the Purchase Price of all tendered 2014A Bonds to be purchased on any Purchase Date are not available: (i) no purchase shall be consummated on such Purchase Date; (ii) all tendered 2014A Bonds shall be returned to the Owners thereof; and (iii) all remarketing proceeds shall be returned to the Remarketing Agent for return to the Persons providing such moneys.

(d) During the Initial Period, provided the conditions set forth in Section 2.02(b) of the Continuing Covenant Agreement are satisfied, all 2014A Bonds that are tendered and not remarketed shall bear interest at the Purchaser Rate during the Amortization Period, as set forth in the Continuing Covenant Agreement. After the Initial Period, all 2014A Bonds that are tendered and not remarketed shall bear interest at the rates applicable thereto during the period of time from and including the applicable Purchase Date to (but not including) the date that all such tendered 2014A Bonds are successfully remarketed (the "Delayed Remarketing Period").

(e) The Remarketing Agent shall continue to use its best efforts to remarket the tendered 2014A Bonds. Once the Remarketing Agent has advised the Trustee and the Tender Agent in writing that it has a good faith belief that it is able to remarket all of the tendered 2014A Bonds, the Trustee will give notice by mail to

the Holders of the tendered 2014A Bonds not later than five Business Days prior to the Purchase Date, which notice will state: (i) that such tendered 2014A Bonds will be subject to mandatory tender for purchase on the date set for such purchase; (ii) the procedures for such mandatory tender; (iii) the Purchase Price of such Tendered 2014A Bonds; and (iv) the consequences of a failed remarketing.

(f) During the Delayed Remarketing Period, interest on such tendered 2014A Bonds shall be paid to the Holders thereof (i) the first Business Day of each calendar month occurring during the Delayed Remarketing Period and (ii) on the last day of the Delayed Remarketing Period.

## REVENUES, THEIR APPLICATION AND CERTAIN FUNDS

### Receipts and Revenues of the Authority

Confirming the granting clauses of the Existing Indenture and of the Sixth Supplemental Indenture, the Authority assigns, transfers and sets over to the Trustee, as security, all the right, title and interest of the Authority in and to the Trust Estate, and the Authority directs payment to the Trustee of the payments under the Security Leases constituting a portion of the Trust Estate. In order to avoid any doubt, the Authority confirms that the Construction Fund is not being pledged as security for the 2014A Bonds and does not constitute part of the "Trust Estate" for purposes of the Sixth Supplemental Indenture.

### Bond Redemption Account

The Trustee shall establish as a part of the Bond Fund, a 2014A Bond Redemption Account and shall transfer funds into such 2014A Bond Redemption Account from the Bond Fund as required to redeem 2014A Bonds on the dates specified in the Sixth Supplemental Indenture or in the form of the 2014A Bond. The Trustee shall use the 2014A Bond Redemption Account to purchase or redeem the 2014A Bonds. If at any time all the 2014A Bonds shall have been purchased, redeemed or paid, the Trustee shall make no further transfers to the 2014A Bond Redemption Account and shall transfer any balance then in such account to the Bond Fund. If the Authority, upon the direction of the City, shall notify the Trustee in writing that the Authority wishes to arrange for 2014A Bonds to be purchased out of such 2014A Bond Redemption Account, the Trustee shall comply with the Authority's arrangements provided they conform to the Indenture. Purchases and redemptions out of such 2014A Bond Redemption Account shall be made as follows:

(a) 2014A Bond Redemption Account. The Trustee shall apply the amounts required to be transferred to the 2014A Bond Redemption Account (less any moneys applied to the purchase of the 2014A Bonds pursuant to the next sentence of the Sixth Supplemental Indenture) on the 2014A Sinking Fund Installment Dates for the 2014A Bonds to the redemption by lot of the 2014A Bonds in the amounts and the manner and on the dates set forth in the 2014A Bonds and Article V of the Sixth Supplemental Indenture. Upon the written direction of the Authority, acting at the written direction of the City, not less than 45 days prior to a redemption date, the Trustee may apply moneys in said account to the purchase of 2014A Bonds at prices exclusive of accrued interest not higher than the principal amount thereof, in lieu of redemption as aforesaid, provided that firm purchase commitments can be made before notice of redemption would otherwise be required to be given. In the event of purchases at less than the principal amount thereof, the difference between the amount in said account representing the principal amount of the 2014A Bonds purchased and the Purchase Price shall be transferred to the Bond Fund. Moneys and investments in the 2014A Bond Redemption Account, until applied as provided in the Sixth Supplemental Indenture, shall be held in trust solely for the benefit of the Holders of the 2014A Bonds.

Accrued interest on purchased 2014A Bonds shall be paid from the Bond Fund, provided that the Trustee, at the written direction of the Authority, shall pay such accrued interest from the moneys in the 2014A Bond Redemption Account pending maturity of investments of the Bond Fund (and in such case upon the maturity of investments in the Bond Fund, the Trustee shall transfer to the 2014A Bond Redemption Account from the Bond Fund the amount of accrued interest on purchased 2014A Bonds so paid from such 2014A Bond Redemption Account).

(b) Purchase of 2014A Bonds by the City. Pursuant to the Security Leases, the City may, not less than 45 days before any 2014A Sinking Fund Installment Date, deliver to the Trustee 2014A Bonds, a portion of which is required to be redeemed by the Trustee on such 2014A Sinking Fund Installment Date, and, upon such delivery, the rentals required to effect such redemption otherwise due from the City shall be reduced by the

aggregate principal amount of the 2014A Bonds so delivered. Upon any such delivery of 2014A Bonds, the principal amount of the 2014A Bonds required by the provisions of Indenture and the 2014A Bond to be redeemed by the Trustee on such 2014A Sinking Fund Installment Date shall also be reduced by the aggregate principal amount of the 2014A Bonds of so delivered.

**Paying Agent**

The Authority shall appoint the Paying Agent for the purpose of acting as paying agent for the 2014A Bonds as provided by the Sixth Supplemental Indenture. The Paying Agent shall be a national banking association with trust powers, a bank and trust company or a trust company. The Authority hereby appoints The Bank of New York Mellon Trust Company, N.A., as Paying Agent and designates the Office of the Paying Agent as a place of payment, such appointment and designation to remain in effect until notice of change pursuant to this Article is filed with the Trustee. The Paying Agent shall act as paying agent for the 2014A Bonds as provided in the Sixth Supplemental Indenture. The Paying Agent shall signify its acceptance of the duties and obligations imposed upon it hereunder by its written instrument of acceptance addressed to the Authority and the Trustee and delivered to such Persons, under which the Paying Agent shall agree to: (1) hold all sums delivered to it by the Trustee for the payment of principal or redemption price of and interest on the 2014A Bonds in trust for the benefit of the respective Owners until such sums shall be paid to such Owners or otherwise disposed of as in the Sixth Supplemental Indenture provided; and (2) keep such books and records as shall be consistent with prudent corporate trust industry practice and make such books and records available for inspection by the Trustee and the Authority at all reasonable times upon prior written request.

**Remarketing Agent**

(a) The Remarketing Agent shall be appointed at the direction of the City pursuant to a Remarketing Agreement to remarket 2014A Bonds pursuant to the Sixth Supplemental Indenture and perform the other duties of the Remarketing Agent described under the Sixth Supplemental Indenture, and to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Notice Parties at all reasonable times. The Remarketing Agent shall act as such under the Remarketing Agreement.

(b) The Remarketing Agent may at any time resign and be discharged of the duties and obligations created the Sixth Supplemental Indenture as set forth in the Remarketing Agreement. The Remarketing Agent may suspend its remarketing efforts as set forth in the Remarketing Agreement. The Remarketing Agent may be removed at any time, at the direction of the City, as shall be set forth in the Remarketing Agreement. Any successor Remarketing Agent shall be selected by the City, and shall be a member of the National Association of Securities Dealers, Inc., shall have a capitalization of at least fifteen million dollars ($15,000,000), shall be authorized by law to perform all the duties set forth in the the Sixth Supplemental Indenture. The City's delivery to the Trustee of a certificate setting forth the effective date of the appointment of a successor Remarketing Agent and the name of such successor shall be conclusive evidence that (i) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of the Existing Indenture and the Sixth Supplemental Indenture and (ii) such successor has been appointed and is qualified to act as Remarketing Agent under the terms of the Sixth Supplemental Indenture.

(c) If the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all of its assets (or, in the case of a bank, national banking association or trust company, its corporate trust assets) to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Remarketing Agent.

**Tender Agent**

(a) The Tender Agent shall be a national banking association with trust powers, a bank and trust company or a trust company, and initially shall be The Bank of New York Mellon Trust Company, N.A., having an office at 1735 Market Street, 6th Floor, AIM No. 193-0650, Philadelphia, PA 19103, Attention: Global Corporate Trust – Public Finance. The Authority shall appoint any successor Tender Agent for the 2014A Bonds, subject to the conditions set forth in Section 7.02(b) of the Sixth Supplemental Indenture. If the Tender Agent is not

also the Trustee, the Tender Agent shall designate its Payment Office and signify its acceptance of the duties and obligations imposed upon it under the Sixth Supplemental Indenture by a written instrument of acceptance delivered to the Authority, the Trustee, the Remarketing Agent, the Credit Provider, if any, and the Liquidity Provider, if any, in which the Tender Agent will agree, particularly: (i) to hold all 2014A Bonds tendered to it for purchase, as agent and bailee of, and in trust for the benefit of, the respective owners thereof until moneys representing the Purchase Price of such 2014A Bonds shall have been delivered to or for the account of or to the order of such owners; (ii) to hold all moneys (without investment thereof or right of lien thereon, and without liability for interest) delivered to it under the Sixth Supplemental Indenture for the purchase of 2014A Bonds pursuant to Section 3.03 of the Sixth Supplemental Indenture as agent and bailee of, and in trust for the benefit of, the Person which shall have so delivered such moneys until the 2014A Bonds purchased with such moneys shall have been delivered to or for the account of such Person and thereafter to hold such moneys (without investment thereof or right of lien thereon and without liability for interest) as agent and bailee of, and in trust for the benefit of, the Person which shall be entitled thereto on the Purchase Date; (iii) to hold 2014A Bonds for the account of the Authority; and (iv) to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Authority and the Trustee at all reasonable times.

(b) The Tender Agent shall be a Paying Agent for the 2014A Bonds having the qualifications set forth under Section 10.15 of the Original Indenture as if a successor trustee and authorized by law to perform all the duties imposed upon it by the Indenture. The Tender Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least 30 days' notice to the Authority, the Trustee, the Liquidity Provider, if any, the Credit Provider, if any, and the Remarketing Agent. In the event that the Authority shall fail to appoint a successor Tender Agent, upon the resignation or removal of the Tender Agent, the Trustee shall either appoint a Tender Agent or itself act as Tender Agent until the appointment and acceptance of a successor Tender Agent. The Tender Agent may be removed at any time by an instrument signed by the Authority, filed with the Trustee, the Remarketing Agent, the Credit Provider and the Liquidity Provider, if any.

(c) In the event of the resignation or removal of the Tender Agent, the Tender Agent shall deliver any 2014A Bonds and moneys held by it in such capacity to its successor, or, if there is no successor, to the Trustee.

## MISCELLANEOUS

### Confirmation of the Existing Indenture

Except as amended and supplemented by the Sixth Supplemental Indenture, the Existing Indenture is ratified and confirmed in all respects and is applicable in all respects to the 2014A Bonds, the Owners thereof and the security therefor.

### Amendment of the Sixth Supplemental Indenture

The Sixth Supplemental Indenture may be amended or supplemented from time to time in the manner and to the extent provided in Article XII of the Original Indenture.

### No Personal Recourse

Notwithstanding any provision or obligation to the contrary in the Sixth Supplemental Indenture set forth, no provision in the Sixth Supplemental Indenture or in any instruments evidencing the 2014A Bonds, shall be construed so as to give rise to any personal liability of the Authority or its members, officers, employees, agents or representatives (collectively, the "Group"), or to give rise to a charge upon the general credit of the Authority or any member of the Group. Any pecuniary liability of the Authority or any member of the Group under the Sixth Supplemental Indenture or thereunder, and under any constitutional provision, statute or theory of law, including contract or tort relating hereto or thereto, shall be limited exclusively to its interest in the Trust Estate, and the lien of any judgment with respect to any of the foregoing shall be restricted thereto. The Authority and the Group shall not be required to do any act whatsoever or exercise any diligence whatsoever to mitigate the damages to the Trustee or the Owners if an Event of Default shall occur under the Indenture. In furtherance of the above, and not by way of limitation, no recourse under or upon any obligation, covenant or agreement contained in the Sixth Supplemental Indenture or in any Obligation hereby secured, or under any judgment obtained against the Authority or any member of the Group, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise, or under any circumstances, under or independent of the Sixth Supplemental

Indenture, shall be had against any member of the Group as such, past, present or future, of the Authority for the payment for or to the Authority or any receiver thereof, or for or to the Owners of any 2014A Bonds issued under the Sixth Supplemental Indenture or otherwise, of any sum that may be due and unpaid by the Authority upon any such 2014A Bonds. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such member of the Group as such, to respond by reason of any act or omission on his part or otherwise, for the payment for or to the Owners of the 2014A Bonds issued under the Sixth Supplemental Indenture or otherwise, of any sum that may remain due and unpaid upon the 2014A Bonds and thereby secured, or any of them, is expressly waived and released as a condition of and consideration for the execution of the Sixth Supplemental Indenture and the issuance of such 2014A Bonds.

The Authority and each member of the Group shall have no liability for any failure to fulfill, or breach by the City of, the City's obligations under the Security Leases or otherwise.

The 2014A Bonds issued or secured under the Sixth Supplemental Indenture shall be limited obligations of the Authority payable solely from those rentals due under the Security Leases which have been assigned as provided in the Sixth Supplemental Indenture, the Trust Estate and as otherwise provided in the Sixth Supplemental Indenture and in the Original Indenture.

## THE SEVENTH SUPPLEMENTAL TRUST INDENTURE

## THE 2014A BONDS

## REVENUES, THEIR APPLICATION AND CERTAIN FUNDS

### Receipts and Revenues of the Authority

Confirming the granting clauses of the Existing Indenture and of the Seventh Supplemental Indenture, the Authority hereby assigns, transfers and sets over to the Trustee, as security, all the right, title and interest of the Authority in and to the Trust Estate, and the Authority directs payment to the Trustee of the payments under the Security Leases constituting a portion of the Trust Estate. The Construction Fund is not pledged as security for the 2014B Bonds and does not constitute part of the "Trust Estate" for purposes of the Indenture.

### Bond Redemption Account

The Trustee shall establish as a part of the Bond Fund, a 2014B Bond Redemption Account and shall transfer sufficient funds into such 2014B Bond Redemption Account from the Bond Fund as required to pay or redeem 2014B Bonds on the dates specified in the Seventh Supplemental Indenture or in the form of the 2014B Bond. The Trustee shall use the 2014B Bond Redemption Account to purchase or redeem or pay the 2014B Bonds. If at any time all the 2014B Bonds shall have been purchased, redeemed or paid, the Trustee shall make no further transfers to the 2014B Bond Redemption Account and shall transfer any balance then in such account to the Bond Fund. If the Authority, upon the direction of the City, shall notify the Trustee in writing that the Authority wishes to arrange for 2014B Bonds to be purchased from the 2014B Bond Redemption Account, the Trustee shall comply with the Authority's arrangements provided they conform to the Indenture. Purchases and redemptions from the 2014B Bond Redemption Account shall be made as follows:

2014B Bond Redemption Account. The Trustee shall apply the amounts transferred to the 2014B Bond Redemption Account (less any moneys applied to the purchase of the 2014B Bonds pursuant to the next sentence) on the 2014B Sinking Fund Installment Dates for the 2014B Bonds to the mandatory redemption by lot of the 2014B Bonds in the amounts and the manner and on the dates set forth in the 2014B Bonds and Article IV of the Seventh Supplemental Indenture. Upon the written direction of the Authority, acting at the written direction of the City, not less than 45 days prior to a redemption date, the Trustee may apply moneys in said account to the purchase of 2014B Bonds at prices, exclusive of accrued interest, not higher than the principal amount thereof, in lieu of redemption as aforesaid, provided that firm purchase commitments can be made before notice of redemption would otherwise be required to be given. In the event of purchases at less than the principal amount thereof, the difference between the amount in said account representing the principal amount of the 2014B Bonds purchased and the Purchase Price shall be transferred to the Bond Fund. Moneys and investments in the 2014B Bond Redemption

Account, until applied as provided in the Seventh Supplemental Indenture, shall be held in trust solely for the benefit of the Holders of the 2014B Bonds.

Accrued interest on purchased 2014B Bonds shall be paid from the Bond Fund, provided that the Trustee, at the written direction of the Authority, shall pay such accrued interest from the moneys in the 2014B Bond Redemption Account pending maturity of investments of the Bond Fund (and in such case upon the maturity of investments in the Bond Fund, the Trustee shall transfer to the 2014B Bond Redemption Account from the Bond Fund the amount of accrued interest on purchased 2014B Bonds so paid from such 2014B Bond Redemption Account).

Purchase of 2014B Bonds by the City. Pursuant to the Security Leases, the City may, not less than 45 days before any 2014B Sinking Fund Installment Date, deliver to the Trustee 2014B Bonds, a portion of which is required to be redeemed by the Trustee on such 2014B Sinking Fund Installment Date, and, upon such delivery, the rentals required to effect such redemption otherwise due from the City shall be reduced by the aggregate principal amount of the 2014B Bonds so delivered. Upon any such delivery of 2014B Bonds, the principal amount of the 2014B Bonds required by the provisions of the Indenture and the 2014B Bonds to be redeemed by the Trustee on such 2014B Sinking Fund Installment Date shall also be reduced by the aggregate principal amount of the 2014B Bonds of so delivered.

**Paying Agent**

The Authority shall appoint the Paying Agent for the purpose of acting as paying agent for the 2014B Bonds as provided by this Seventh Supplemental Indenture. The Paying Agent shall be a national banking association with trust powers, a bank and trust company or a trust company. The Authority hereby appoints The Bank of New York Mellon Trust Company, N.A., as Paying Agent and designates the Office of the Paying Agent as a place of payment, such appointment and designation to remain in effect until notice of change pursuant to this Article is filed with the Trustee. The Paying Agent shall act as paying agent for the 2014B Bonds as provided in this Seventh Supplemental Indenture. The Paying Agent shall signify its acceptance of the duties and obligations imposed upon it under the Seventh Supplemental Indenture by its written instrument of acceptance addressed to the Authority and the Trustee and delivered to such Persons, under which the Paying Agent shall agree to: (1) hold all sums delivered to it by the Trustee for the payment of principal or redemption price of and interest on the 2014B Bonds in trust for the benefit of the respective Owners until such sums shall be paid to such Owners or otherwise disposed of as in the Seventh Supplemental Indenture provided; and (2) keep such books and records as shall be consistent with prudent corporate trust industry practice and make such books and records available for inspection by the Trustee and the Authority at all reasonable times upon prior written request.

## MISCELLANEOUS

**Confirmation of the Existing Indenture**

Except as amended and supplemented by this Seventh Supplemental Indenture, the Existing Indenture is ratified and confirmed in all respects and is applicable in all respects to the 2014B Bonds, the Owners thereof and the security therefor.

**Amendment of the Seventh Supplemental Indenture**

This Seventh Supplemental Indenture may be amended or supplemented from time to time in the manner and to the extent provided in Article XII of the Original Indenture.

**No Personal Recourse**

Notwithstanding any provision or obligation to the contrary in the Seventh Supplemental Indenture set forth, no provision in this Seventh Supplemental Indenture or in any instruments evidencing the 2014B Bonds, shall be construed so as to give rise to any personal liability of the Authority or its members, officers, employees, agents or representatives (collectively, the "Group"), or to give rise to a charge upon the general credit of the Authority or any member of the Group. Any pecuniary liability of the Authority or any member of the Group under the Seventh Supplemental Indenture or thereunder, and under any constitutional provision, statute or theory of law, including

contract or tort relating hereto or thereto, shall be limited exclusively to its interest in the Trust Estate, and the lien of any judgment with respect to any of the foregoing shall be restricted thereto. The Authority and the Group shall not be required to do any act whatsoever or exercise any diligence whatsoever to mitigate the damages to the Trustee or the Owners if an Event of Default shall occur under the Indenture. In furtherance of the above, and not by way of limitation, no recourse under or upon any obligation, covenant or agreement contained in this Seventh Supplemental Indenture or in any Obligation hereby secured, or under any judgment obtained against the Authority or any member of the Group, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise, or under any circumstances, under or independent of this Seventh Supplemental Indenture, shall be had against any member of the Group as such, past, present or future, of the Authority for the payment for or to the Authority or any receiver thereof, or for or to the Owners of any 2014B Bonds issued under the Seventh Supplemental Indenture or otherwise, of any sum that may be due and unpaid by the Authority upon any such 2014B Bonds. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such member of the Group as such, to respond by reason of any act or omission on his part or otherwise, for the payment for or to the Owners of the 2014B Bonds issued under the Seventh Supplemental Indenture or otherwise, of any sum that may remain due and unpaid upon the 2014B Bonds and thereby secured, or any of them, is expressly waived and released as a condition of and consideration for the execution of this Seventh Supplemental Indenture and the issuance of such 2014B Bonds.

The Authority and each member of the Group shall have no liability for any failure to fulfill, or breach by the City of, the City's obligations under the Security Leases or otherwise.

The 2014B Bonds issued or secured under the Seventh Supplemental Indenture shall be limited obligations of the Authority payable solely from those rentals due under the Security Leases which have been assigned as provided in the Seventh Supplemental Indenture, the Trust Estate and as otherwise provided in the Seventh Supplemental Indenture and in the Original Indenture.

## PRIME LEASE
## (EAGLES STADIUM LAND & IMPROVEMENTS)

The following description of certain provisions of the Prime Lease (EAGLES STADIUM LAND & IMPROVEMENTS) (the "Prime Lease") set forth below is only an outline of some of the provisions thereof and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Prime Lease in its entirety, copies of which are on file at the corporate trust office of the Trustee in Philadelphia, Pennsylvania, for the complete statements of the provisions thereof.

### DEFINITION OF TERMS

Wherever used in the Prime Lease, the following terms shall have the following meanings:

"Act" shall mean Economic Development Financing Law, Act No. 102 of the General Assembly of the Commonwealth of Pennsylvania approved August 23, 1967 (P.L. 251), as amended and supplemented.

"Act of Bankruptcy" shall mean that (i) a party shall have commenced a voluntary case under any bankruptcy law, applied for or consented to the appointment of, or taking of possession by, a receiver, trustee, assignee, custodian or liquidator of all or a substantial part of its assets; (ii) a party shall have failed, or admitted in writing its inability generally, to pay its debts as such debts become due; (iii) a party shall have made a general assignment for the benefit of creditors; (iv) a party shall have been adjudicated a bankrupt, or shall have filed a petition or an answer seeking an arrangement with creditors; (v) a party shall have taken advantage of any insolvency law, or shall have submitted an answer admitting the material allegations of a petition in bankruptcy or insolvency proceeding; (vi) an order, judgment or decree for relief shall have been entered in an involuntary case against a party, without the application, approval or consent of such party, by any court of competent jurisdiction appointing a receiver, Trustee , assignee, custodian or liquidator, for the party or for a substantial part of any of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) consecutive days; or (vii) an involuntary petition in bankruptcy shall have continued undismissed for sixty (60) days after the filing thereof.

"Additional Land" shall mean, collectively, the land which has a use functionally related and accessory to the Eagles Stadium Premises and shall mean, for the purposes of the Prime Lease, collectively, the land known as the "Acme Site", as more particularly described on Exhibit "C" of the Prime Lease and the land known as the "Naval Hospital Parking Lot," as more particularly described on Exhibit "D" of the Prime Lease.

"Additional Rent" shall mean all sums payable by the City under the Prime Lease other than (and in addition to) the Rent (defined below).

"Affiliate" or "Affiliates" shall mean as to any Person, any other Person controlled by, controlling of, or under common-control with such Person.

"Applicable Laws" shall mean the constitution and laws of the United States of America, the constitution and laws of the Commonwealth of Pennsylvania and all rules and regulations promulgated pursuant thereto, and shall include but not be limited to the Home Rule Charter of the City of Philadelphia and the City of Philadelphia Code.

"Authority" shall mean the Philadelphia Authority for Industrial Development, a body politic and corporate existing under the laws of the Commonwealth.

"Authority Contractual Commitments" shall mean obligations of the Authority as set forth in the Eagles Lease including reimbursement of operating and maintenance expenses with respect to the Eagles Stadium Premises in accordance with the schedule set forth as Exhibit "F" attached thereto and reimbursement of excess tax payments on account of real estate taxes, amusement taxes and use and occupancy taxes which are payable by the Eagles in excess of the base amount to be set forth in the Eagles Lease.

"Bonds" shall mean those bonds, notes or other forms of indebtedness issued for the purpose of financing refinancing a portion of the Eagles Stadium Premises, Additional Land, demolition, site preparation, improvements and infrastructure in connection therewith and a portion of any and all other costs incurred in connection with the sports stadia, in an aggregate principal amount not to exceed One Hundred One Million Five Hundred Thousand Dollars ($101,500,000) net of original issue discount, plus amounts necessary for any reserves, capitalized interest, costs of issuance, amounts necessary to effect any refunding and such amount as may be finally determined to be owed to any condemnees as Just Compensation (as defined in the Pennsylvania Eminent Domain Code), at any one time outstanding; provided that in no event shall the term of each series of Bonds exceed thirty (30) years from the date of issuance of such series of Bonds, provided further that in the case of any series of refunding bonds the term of such Bonds shall not exceed thirty (30) years from the date of issue of the Bonds to be refunded.

"City" shall mean the City of Philadelphia, a City of the First Class of the Commonwealth acting through its Commerce Department and Department of Public Property.

"Commonwealth" shall mean the Commonwealth of Pennsylvania.

"Credit Facility" shall mean any letter of credit, liquidity facility, standby bond purchase agreement, line of credit, surety bond, Insurance commitment, insurance policy or similar agreement with respect to the Bonds and any credit, loan or reimbursement agreement or other obligation of the Authority to the Credit Facility Provider in connection therewith, and all documents collateral thereto, as may be substituted from time to time.

"Credit Facility Provider" shall mean the provider of any Credit Facility as may be substituted from time to time.

"Eagles" shall mean the Philadelphia Eagles Limited Partnership or its successor as holder of the franchise or controlled affiliate, which is the holder of the franchise for the City issued by the National Football League and is the owner of the professional football team known as the Philadelphia Eagles.

"Eagles Lease" shall mean the Sublease and Development Agreement entered into between the Authority, as landlord, and the Eagles, as tenant, pursuant to which the Authority anticipates that it will lease and that the Eagles will take and hire the Eagles Stadium Land and to construct thereon certain structures and improvements including, but not limited to, a new stadium and the Improvements.

"Eagles Lease-Back Lease" shall mean that certain lease by and between the City, as landlord, and the Authority, as tenant, dated of the same date as the Prime Lease with respect to the Eagles Stadium Premises.

"Eagles Stadium" shall mean the football stadium to be constructed on the Eagles Stadium Land as contemplated by the Eagles Lease.

"Eagles Stadium Land" shall mean the 43 acres of land more particularly described and depicted in Exhibit "A" to the Prime Lease and any and all appurtenances, easements, rights, licenses, hereditaments and privileges as may in any way belong to or appertain thereto or inure to the benefit thereof.

"Eagles Stadium Premises" shall mean the Eagles Stadium Land and the Improvements, together with all improvements and appurtenances now existing or in the future constructed thereon.

"Fiscal Year" shall mean July 1 through and including June 30 of the following calendar year.

"Force Majeure Event" shall mean any event (except for the payment of money) which is beyond the reasonable control of, and is not caused by the fault or negligence of, the party asserting the Force Majeure, which wholly or partially prevents the performance of any of the duties, responsibilities or obligations of the party asserting the Force Majeure and the term "Force Majeure" shall include, but not be limited to, an act of God, an act of the public enemy, lightning, fire, explosion or other serious casualty; unusually severe weather (such as hurricane, earthquake, tornado, landslide or flood); war (whether declared or not); or condemnation or other taking by the action of any governmental body on behalf of any public, quasi-governmental or private entity.

"Ground Lease" shall mean that certain Ground Lease dated April 1, 2001 between the City, as landlord, and the Authority, as tenant, pursuant to which the City has agreed to lease and the Authority agreed to take and hire the Eagles Stadium Land (as such term is hereafter defined).

"Improvements" shall mean the structures and improvements to be constructed on the Eagles Stadium Land, including but not limited to a new stadium and related improvements and amenities.

"Indenture" shall mean one or more instruments executed and delivered by and between the Authority and the Trustee (defined below) governing the issuance and administration of the Bonds for the benefit of the holders thereof.

"Person" shall mean an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, estate, unincorporated association, joint venture or any other entity, the United States, a state, or political subdivision thereof, or any agency, department or court thereof.

"Prime Lease" shall mean the Prime Lease between the Authority and the Eagles dated April, 2001.

"Team" shall mean the Eagles together with any successor as holder of the franchise or controlled affiliate.

"Transaction Documents" shall mean the Ground Lease, the Prime Lease, the Eagles Lease-Back Lease, the Eagles Lease, the Indenture, the Bonds, the Credit Facility, any bond purchase contract and documents collateral thereto, and any other financing documents and other related documents.

"Trustee" shall mean the bank or other institutional lending entity acting as trustee under the Indenture governing the Bonds.

## DEMISE OF EAGLES STADIUM PREMISES

### Demise of Eagles Stadium Premises

On the Commencement Date, in consideration of the Rent and Additional Rent thereafter reserved and the terms, covenants, conditions and agreements set forth in the Prime Lease, the Authority demises and lets unto City, and City hires and leases from the Authority, the Eagles Stadium Premises and any other improvements and appurtenances then existing or in the future constructed on the Eagles Stadium Premises, for the Prime Lease Term, upon and subject to the conditions, terms, agreements and covenants set forth therein. At all times during the Prime

Lease Term, ownership of and title to the Eagles Stadium Land shall be and remain in the City, subject to the Authority's leasehold under the Ground Lease, the City's leasehold under the Prime Lease, and the other leaseholds contemplated thereby; and ownership and title to the Eagles Stadium Premises (excluding the Eagles Stadium Land) and all other improvements and appurtenances on the Eagles Stadium Premises, whether then existing or thereafter constructed, shall be and remain in the Authority, subject to the interests of the Eagles and its Affiliates to be granted and established in the Eagles Lease.

**Condition of Eagles Stadium Premises**

The City acknowledges and agrees to accept the Eagles Stadium Premises, subsurface conditions, and the present uses and non-uses thereof without recourse to Authority, in its and their "AS IS," "WHERE IS" condition, as the same may be modified, altered, improved, constructed or reconfigured from time to time. The City expressly acknowledged that the Authority has made no promises to alter, remodel, improve, repair, decorate or clean the same or any part thereof and makes no representation or warranty, express or implied, in fact or arising by operation of law, of, as to, or concerning, the Eagles Stadium Premises or the sidewalks and structures adjoining the same, subsurface conditions, and the present uses and non-uses thereof, including without limitation, health, safety, or environmental matters, accessibility for disabled persons, the compliance of the same with any Applicable Laws, the nature, condition or usability thereof, the use or uses to which the same or any part thereof may be put, or any other matter or thing affecting or relating thereto. The provisions of Section 2.2 of the Prime Lease have been fully negotiated at arm's-length between the parties hereto and are intended to be a complete exclusion and negation of any warranties or promises by the Authority, express or implied, with respect to the Eagles Stadium Premises. The provisions of Section 2.2 of the Prime Lease shall survive the expiration or earlier termination of the Prime Lease.

**Inability to Deliver**

If, subject to Force Majeure Events or any other event or occurrence which is beyond the Authority's control, the Authority does not deliver the Eagles Stadium Premises to City on or before July 1, 2001, the Prime Lease shall not terminate and the Authority shall not be liable or responsible for any damages of any kind for failure to deliver possession, but City and Authority shall promptly meet for purposes of determining a mutually acceptable extension for delivery of the Eagles Stadium Premises. In any case, failure of the Authority to deliver the Eagles Stadium Premises shall not in any way affect the City's obligation to pay Rent thereunder.

**Title**

The City acknowledges and agrees that the Prime Lease and the City's leasehold estate thereunder, are and shall be under and subject to the Ground Lease and matters of record and any condition which a current accurate survey of the Eagles Stadium Land would disclose. The Authority covenants and agrees that it shall not further encumber the fee title to the Eagles Stadium Land (other than by entering into the Eagles Lease-Back Lease and the Eagles Lease), by operation of law or otherwise, during the Prime Lease Term without the prior written consent of the Director of Commerce of the City, which consent shall not be unreasonably withheld, conditioned or delayed.

## PRIME LEASE TERM

**Prime Lease Term**

The term of the Prime Lease (the "Prime Lease Term") shall commence upon the earlier to occur of the date on which (a) the Eagles Stadium Land is acquired by the City, or (b) the Bonds are issued ("Commencement Date"), and shall expire on the later of: (A) the date which is thirty (30) days after the expiration or earlier termination of the term to be set forth in the Eagles Lease, as it may be renewed or extended; or (B) the date which is thirty (30) days after the last of the Bonds are no longer outstanding under the Indenture and there shall have been a defeasance of the lien of the Indenture and the Authority's obligations under the Indenture have been duly terminated pursuant to its terms and there is no outstanding obligation under any Credit Facility, or (C) such later date as may be necessary for the Authority, acting diligently, to comply with any covenant, condition, term or provision of the Indenture or to be set forth in Eagles Lease, or to exercise any of the remedies provided to the Authority herein for the benefit of the Trustee under the Indenture .

## RENT

**Rent**

In consideration of the Authority's entering into the Ground Lease, the Prime Lease and the Eagles Lease-Back Lease Agreement, including but not limited to its obligation with respect to any financing or refinancing of the obligations undertaken by the Authority under the Prime Lease or under the Eagles Lease, such as the sale of the Bonds, the City thereby agrees to pay as rent ("Rent") to the Authority, or the Trustee or the Credit Facility Provider on behalf of the Authority, as thereafter described, the following amounts (all of which together shall constitute Rent) in the following order of payment priority:

An amount necessary to meet the Authority Contractual Commitments, constituting the operating and maintenance expenses with respect to the Eagles Stadium Premises in the amounts set forth on Exhibit F of the Prime Lease.

When the Authority issues its Bonds, then:

(1) for deposit in accordance with the Indenture, at least one business day prior to each date that principal of and premium, if any, and interest on the Bonds, or any portion thereof, shall be due and payable, whether by maturity, redemption or otherwise (other than by acceleration under the Indenture), an amount which, together with other moneys under the Indenture available therefor is sufficient to make the Authority's required payments of principal of, premium, if any, and interest on the Bonds then becoming due, whether by maturity, redemption or otherwise (other than by acceleration under the Indenture) until the principal of, or redemption premium, if any, and interest on the Bonds shall have been paid in full or provision for the payment thereof shall have been made in accordance with the provisions of the Indenture; and

(2) for deposit in accordance with the Indenture or Credit Facility, in the manner provided therein, the amounts required to satisfy the timely payment (other than by acceleration) of any reimbursement obligation (including interest thereon) and any fees, expenses, charges and indemnification pursuant to the Credit Facility and related documentation; and

(3) payments required pursuant to any swap agreements; and

(4) additionally, from time to time, certain amounts due in connection with the issuance of Bonds in connection with the Eagles Stadium Premises on behalf of the Authority; and

(5) additionally, from time to time, the City shall be required to make payments necessary to make up any deficiency in the funds established under the Indenture (other than as a result of acceleration under the Indenture or Credit Facility), including an amount which is sufficient to make any payment required to be made by the Authority to the United States Treasury, as provided in the Indenture, as determined and specified in writing by the City, other than as stated in (1) above, and to make payments to reimburse the Authority for any premiums paid for insurance policies purchased by the Authority, to the extent that the City has funds appropriated for such purposes in such Fiscal Year; and

(6) all Rent payable under subparagraphs (1) through (5) above shall be paid in immediately available funds and held, invested, disbursed and applied as provided in the Indenture or any Credit Facility; provided, however, that, on or before forty-five (45) days prior to any Sinking Fund Installment Date, the City may deliver to the Trustee, Bonds of a maturity, a portion of which is required to be redeemed by the Trustee on such Sinking Fund Installment Date, and the Rent required to effect such redemption otherwise due from the City shall be reduced by the aggregate principal amount of the Bonds so delivered; up to the full amount of such Sinking Fund Installment; and

7) The Authority directs the City to pay the Rent due under Section 4.1(b) of the Prime Lease (other than fees, expenses and indemnities owing to the Credit Facility Provider) to the Trustee to which, under the terms of the Prime Lease and of the Indenture, the Prime Lease (as provided in the Indenture) and the Rent due under Section 4.l(b) of the Prime Lease (other than fees, expenses and indemnities owing to the Credit Facility Provider) are assigned. That portion of the Rent due under Section 4.l(b) of the Prime Lease representing fees, expenses and indemnities owing to the Credit Facility Provider shall be paid by the City directly to the Credit Facility Provider; and

(8) Except for Rent due during the period with respect to which the Notes are Outstanding (each as defined in the Indenture), which Rent shall be determined from time to time, the Rent due under Section 4.l(b) of the Prime Lease shall be determined on an annual basis by the City Treasurer for each fiscal year of the City based upon the principal amount t of Outstanding Bonds issued under the Indenture.

An amount necessary to fu1lfill the Authority Contractual Commitments (other than those set forth in Section 4.l(a) of the Prime Lease), including reimbursement of excess tax payments on account of real estate taxes, amusement taxes and use and occupancy taxes which are payable by the Eagles in excess of the base amounts to be set forth in the Eagles Lease, the PILOT Agreement, or the Use and Occupancy Tax Settlement Agreement (the PILOT Agreement and the Use and Occupancy Tax Settlement Agreement being defined in and attached to the Eagles Lease).

If the monies available to the Authority to meet its requirements under the Indenture or under the Bonds are insufficient to pay the Authority's obligations thereunder, then the City upon demand shall pay to the Authority or its assigns under and pursuant to Section 4.3 of the Prime Lease, such additional sum or sums, in each Fiscal Year as are required for such purposes, subject to the provisions of Section 4.2(a) of the Prime Lease. Notwithstanding, any provision to the contrary, there shall be no acceleration of the Rent payments under the Prime Lease.

Notwithstanding any other provision of the Prime Lease, the City's obligation to pay the Rent as set forth in Section 4.l(b) of the Prime Lease shall terminate upon the date ("Partial Rent Termination Date") upon which neither the Bonds nor any obligations under the Credit Facility are outstanding, and there shall have been a defeasance of the lien of the Indenture. During the remainder of the Prime Lease Term following such date. Rent shall mean the sum of One Dollar ($1.00) per year plus the Authority Contractual Commitments as set forth in Article 4 of the Prime Lease.

The City may make payments in advance at any time, on account of Rent payable under Section 4.l(b) of the Prime Lease, in one or more prepayment installments, which amounts shall be credited against the Rent at the time next due, unless otherwise directed by the City. All such prepayments shall be deposited in accordance with the Indenture.

Notwithstanding anything in the Prime Lease to the contrary, the Rent under Section 4.l(b) of the Principal Lease may also secure indebtedness issued pursuant to the Indenture in addition to the Bonds.

Additional debt issued for the purposes for which the Bonds may be issued, may be issued only through an amendment to the Prime Lease, to the extent that such additional debt exceeds the authorized amount set forth in the definition of "Bonds" therein (the foregoing shall not be construed as a limitation of any approval of the City Council of the City that may be required with respect to any such amendment).

**Manner of Rent and Additional Rent Payment by City; Appropriations; Failure to Pay Rent and Additional Rent**

The Rent and Additional Rent shall be payable only out of the current revenues of the City and the City agrees to provide for payment of the Rent and Additional Rent and include the same in the City's annual operating budget for each Fiscal Year of the City. If the current revenues of the City are insufficient to pay the Rent and Additional Rent in any Fiscal Year as the same becomes due and payable, the City shall include amounts not so paid in the City's operating budget for the ensuing Fiscal Year and shall produce sufficient current revenues to pay in the ensuing Fiscal Year such balance due for the preceding Fiscal Year in addition to the amount of Rent and Additional Rent due for the ensuing Fiscal Year.

The City covenants to make appropriations in each of its Fiscal Years in such amounts as shall be required to make all Rent and Additional Rent payments due and payable under the Prime Lease and all payments due under the Prime Lease in each of the City's Fiscal Years.

The failure of the City to make any payment of Rent and Additional Rent or any other amounts due pursuant to the Prime Lease on the date specified for payment shall constitute a default under the Prime Lease.

Anything in the Prime Lease to the contrary notwithstanding, no payments under the Prime Lease shall be characterized as debt or deemed to be debt of the City under Article IX of the Constitution of the Commonwealth of Pennsylvania. The City's obligation to make payments of Rent and Additional Rent to the Authority under the Prime Lease is payable from the current general revenues of the City, but shall not constitute a pledge of or a grant of a security interest in the general tax revenues of the City.

**Assignment by Authority**

The Authority, immediately following the execution and delivery of the Prime Lease, may (i) assign, transfer and set over all right, title and interest of the Authority in and to the right to receive the Rent under Section 4.1 (a) of the Prime Lease to a trustee or the Trustee and (ii) assign, transfer and set over all right, title and interest of the Authority in and to the right to receive the Rent under Section 4.1 (b) of the Prime Lease to the Trustee and the rights and remedies related thereto, in trust, and with respect to (ii), to be held and applied pursuant to provisions of the indenture for the benefit of the Holders (as defined in the Indenture) and the Credit Facility Provider and/or to the Credit Facility Provider. The City: (a) consents to such assignment and accepts notice thereof with the same legal effect as though such acceptance were embodied in a separate instrument, separately executed after execution of such assignment; (b) agrees to pay directly to the trustee or Trustee, all Rent payable and assigned under Section 4.l(a) of the Prime Lease; and (c) agrees to pay directly to the Trustee all Rent under Section 4.l(b) of the Prime Lease (other than Rent payable under Section 4.1 (b) of the Prime Lease in respect of the fees, expenses and indemnities owing to the Credit Facility Provider and such other amounts due under Section 18.2 of the Prime Lease), and directly to the Credit Facility Provider all Rent payable with respect to fees, expenses and indemnities owing to the Credit Facility Provider under the Credit Facility, in each case, without any defense, set-offs or counterclaim; and (d) agrees that the trustee. Trustee and the Credit Facility Provider may exercise all rights and remedies granted to the Authority under the Prime Lease with respect to such Rent (which are assigned to the trustee, Trustee and the Credit Facility Provider, respectively).

**Assignment by the City**

Prior to providing for the payment in full of outstanding Bonds or the earlier redemption thereof, the defeasance of the lien of the Indenture, and the payment in full of any outstanding obligation under any Credit Facility, without the prior written consent of the Authority, the Trustee and the Credit Facility Provider, the City may not by operation of law or otherwise assign, transfer, mortgage, pledge, hypothecate, encumber or otherwise dispose of the Prime Lease or any interest therein.

**No Suspension or Abatement of Rent and Additional Rent**

The City shall pay the Rent as required under Section 4.1 of the Prime Lease and Additional Rent without suspension or abatement of any nature. So long as (i) the Bonds remain outstanding, (ii) the lien of the Indenture has not been defeased, (iii) there exists any outstanding obligation under any Credit Facility, or (iv) the Authority shall have any obligation to the Eagles under the Eagles Lease, the obligation of the City to pay the Rent and Additional Rent payable under the Prime Lease strictly in accordance with the terms of the Prime Lease shall be an absolute and unconditional, obligation of the City and shall not be suspended, abated, reduced, abrogated, waived, diminished or otherwise modified in any manner or to any extent whatsoever, and regardless of any rights of setoff, recoupment or counterclaim that the City might otherwise have against the Authority, the Eagles, the Credit Facility Provider or the Trustee or any other party or parties and regardless of any contingency, act of God, event or cause whatsoever and notwithstanding any circumstances or occurrence that may arise or take place after the date of the Prime Lease, including without limiting the generality of the foregoing those items set forth under Section 4.5(a)(i) through (xv) of the Prime Lease.

Except to the extent provided in and subject to Section 4.5 of the Prime Lease and in Article 15 of the Prime Lease, nothing contained in the Prime Lease shall be construed to prevent or restrict the City from asserting any rights which it may have under the Prime Lease or any provision of law against the Authority or the Trustee.

Notwithstanding any provision in the Prime Lease concerning the termination of the Prime Lease or the leasehold created therein, the City and Authority agree that, as long as (i) the Bonds are outstanding, (ii) the lien of the Indenture has not been defeased, (iii) there exists any obligation under any Credit Facility, or (iv) the Authority

shall have any obligation to the Eagles under the Eagles Lease, in pursuing their remedies under Article 15 of the Prime Lease they shall not terminate the Prime Lease or the leasehold created thereby or cease payment of the Rent and Additional Rent.

**Approval by the City**

The terms and conditions of the Indenture, the Credit Facility, the identity of the Credit Facility Provider, the form of the Bonds and the collateral security therefor, if any, shall be subject to the prior written approval of the City, acting through its Director of Finance, which may be granted or withheld in its sole discretion.

## OWNERSHIP OF INTERESTS

**City Leasehold Interest**

On the last day of the Prime Lease Term, or upon any earlier termination of the Prime Lease, the City's leasehold interest shall revert to the Authority without the necessity of any further action by either Authority or the City; provided, however, that, upon the Authority's request, the City shall execute and deliver to the Authority (in recordable form where necessary or appropriate) all documents necessary to evidence such reversion.

## REAL ESTATE TAXES

**Real Estate Taxes**

Unless otherwise provided in Article 18 of the Prime Lease, the City shall not be liable or responsible during the Prime Lease Term for the payment of any real estate taxes or any payment or other charge in lieu of real estate taxes, if and to the extent any such taxes, payments or charges are permitted by Applicable Laws to be assessed with respect to the Eagles Stadium Premises. Nothing in the Prime Lease shall be construed to alter, amend or in any way affect the liability of the Eagles under the Eagles Lease or Applicable Law for the payment of any taxes or payments or other charges in lieu thereof accruing or payable with respect to the Eagles Stadium Premises, or the use and enjoyment thereof by the Eagles, the City or by any other user thereof.

## USE OF EAGLES STADIUM PREMISES

**City Compliance with Applicable Laws**

In the exercise of its rights under the Prime Lease, the City shall, at all times during the Prime Lease Term, comply with all Applicable Laws now or hereafter enacted or promulgated, and whether or not such Applicable Laws can be said to be within the present contemplation of the parties; provided that, except as provided in Article 18 of the Prime Lease, City shall have no obligation to perform construction or alterations, or maintenance, repairs, or replacements, whether ordinary or extraordinary, operating, routine, or capital in nature, in, on, or about any portion of the Eagles Stadium Premises or the Improvements and the other improvements, fixtures and appurtenances erected thereon.

## MAINTENANCE, REPAIR AND ALTERATIONS

**City Liability for Operations and Maintenance of Eagles Stadium Premises**

Except as otherwise provided in Article 18 of the Prime Lease, the Authority acknowledges and agrees that in no circumstance whatsoever will the City have any liability to pay any sums toward or for any of the operating and maintenance costs of the Eagles Stadium Premises or the Improvements, or any other improvements, fixtures or appurtenances forming any part of the Eagles Stadium Premises (provided that nothing in Section 8.1 of the Prime Lease is intended to relieve the City from its obligations pursuant to the Prime Lease for payments of Rent and Additional Rent).

**No Obligation of City**

Except as otherwise provided in Article 18 of the Prime Lease and as may be provided in the Eagles Lease, it is expressly understood and agreed by the Authority that the City shall not be required, and shall not be responsible or liable in any way whatsoever, to maintain, alter, repair, build, rebuild or replace all or any portion of the Eagles Stadium Premises (whether such work be interior or exterior, structural or nonstructural, ordinary or extraordinary, foreseen or unforeseen, capital or routine); provided, however, that nothing in Section 8.2 of the Prime Lease shall in any way alter or diminish the City's obligation to pay Rent and Additional Rent.

**No Liability of City**

Except as otherwise provided in Article 18 of the Prime Lease, the City shall not in any event be liable or responsible by virtue of the Prime Lease for any injury or damage to any property or to any Person happening on, or in or about the Eagles Stadium Premises, nor for any injury or damage to the Eagles Stadium Premises, nor to any property, whether belonging to Authority or any other Person, caused by any fire, breakage, leakage, defect or bad condition in any part of the Eagles Stadium Premises, or from water, rain or snow that may leak into, issue or flow from any part of the Eagles Stadium Premises from the drains, pipes, or plumbing work of the same, or from any place or quarter, or due to the use, misuse or abuse of all or any of the openings or installations of any kind whatsoever which may thereafter be erected or constructed in or on the Eagles Stadium Premises, or from any kind of injury which may arise from any other cause whatsoever on the Eagles Stadium Premises.

## ASSIGNMENT AND SUBLETTING

**No Assignment by City**

In addition to and without limiting in any way the provisions of Section 4.4 of the Prime Lease, the City shall not, by operation of law or otherwise, sublet, assign, transfer, mortgage, pledge, hypothecate, encumber or otherwise dispose of the Prime Lease, or any interest in, to or under the Prime Lease for the Eagles Stadium Premises (or any part thereof) without prior written approval of the Authority.

**Authority Consent to Assignment**

The Authority has the absolute right to withhold its consent without giving any reason whatsoever to any assignment, transfer, mortgage, pledge, hypothecation, encumbrance or other disposition of the Prime Lease or City's interest in the Prime Lease. In no event shall the Prime Lease be assigned or assignable by operation of law, attachment, assignment for the benefit of creditors or otherwise, or by voluntary or involuntary bankruptcy proceedings (it being understood and agreed that any such assignment shall be null and void, of no force or effect and inoperative), and in no event shall the Prime Lease or any rights or privileges thereunder be an asset of City under any bankruptcy, insolvency or reorganization proceedings.

**City to Remain Obligated**

Notwithstanding anything contained in the Prime Lease to the contrary, any assignment, subletting, use, occupancy or transfer under the Prime Lease (whether with or without the consent of the Authority) shall not operate to relieve the City from any covenant or obligation under the Prime Lease, or be deemed to be a consent to or relieve the City or any assignee, subtenant or sub-licensee permitted pursuant to the Prime Lease from obtaining the Authority's prior written consent to any subsequent assignment, transfer, lien, charge, subletting, use or occupancy (which may be withheld by the Authority in its sole discretion), and City shall continue to remain primarily, jointly and severally liable and obligated for any and all covenants and obligations under the Prime Lease, including, but not limited to the obligations to pay Rent and Additional Rent pursuant to the terms of the Prime Lease.

**Permitted Subletting**

Notwithstanding the foregoing prohibition on assigning set forth above, the City shall have the right to let or sublet the Eagles Stadium Premises to Authority for further sub-lease to Eagles pursuant to the Eagles Lease.

## CASUALTY

### Terms of Eagles Lease Controls

In the event of casualty to some or all of the Eagles Stadium Premises, the terms and conditions to be set forth in the Eagles Lease regarding casualty shall control the parties' respective rights following such casualty; provided, however, that notwithstanding any damage or destruction to some or all of the Eagles Stadium Premises, the City's obligation to pay Rent and Additional Rent under the Prime Lease and to fulfill its obligations under Article 18 of the Prime Lease shall not be suspended, abated, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever, and the City shall continue to pay Rent and Additional Rent and to fulfill its obligations under Article 18 of the Prime Lease as if no such damage or destruction had occurred. The foregoing to the contrary notwithstanding, in the event that any claims of the Eagles pursuant to the terms to be set forth in the Eagles Lease, and any claims of any fee or leasehold mortgagee have been satisfied, then any remaining casualty insurance proceeds shall be promptly paid to the City provided that sufficient proceeds are made available to the Authority to provide for a cleared and safe site.

## SURRENDER OF EAGLES STADIUM PREMISES

### Surrender of Eagles Stadium Premises

Upon the expiration or earlier termination of the Prime Lease, the City shall peaceably and quietly surrender, vacate, and deliver up possession of the Eagles Stadium Premises to the Authority, and the City's and Authority's rights and obligations regarding the Eagles Stadium Premises, including but not limited to the Improvements, shall be governed in accordance with the terms to be set forth in the Eagles Lease regarding surrender of the Eagles Stadium Premises.

## LEASEHOLD MORTGAGES

### Leasehold Mortgages

At no time during the Prime Lease Term shall City engage in any financing or other transaction creating any mortgage upon, indenture, trust agreement, or other security interest in, the Eagles Stadium Premises, the Prime Lease or City's interest in any of the foregoing, or any portion thereof (collectively, a "Leasehold Mortgage.") Any placement or attempted or purported placement of a Leasehold Mortgage upon the Eagles Stadium Premises or any portion thereof without the Authority's prior written approval shall be null and void, inoperative, of no force or effect and shall constitute an Event of Default under the Prime Lease on the date of its execution or filing of record, or attempted or purported execution, or filing of record, regardless of whether or when it is foreclosed or otherwise enforced. City expressly consents and agrees, however, that Authority may assign, transfer, and pledge the Prime Lease or the Rent as otherwise provided in Article 4 of the Prime Lease. Nothing contained in the Prime Lease is intended to prevent the Eagles from granting leasehold mortgages and security interests upon their interest in the Eagles Lease in accordance with the terms of the Eagles Lease.

## CONDEMNATION

### Notice of Taking

The City and the Authority each agree to give the other written notice of any taking as a result of, or in lieu of, condemnation or the exercise of the power of eminent domain by any sovereign, municipality or any other public or private authority ("Taking") of all or any part of the Eagles Stadium Premises or any interest therein promptly after such party receives notice thereof.

### Total Taking of Eagles Stadium Premises

If the whole of the Eagles Stadium Premises or the leasehold estate created under the Prime Lease shall be acquired or condemned as a result of a Taking ("Total Taking"), then notwithstanding such Total Taking, the Prime Lease Term shall not terminate and the Prime Lease, including but not limited to all Rent and Additional Rent then accrued and accruing thereafter, shall continue in full force and effect until the expiration or earlier termination of the Prime Lease Term.

**Partial Taking**

In the event of a Taking of a portion of the Eagles Stadium Premises which is not a Total Taking as provided in Section 14.2 of the Prime Lease (a "Partial Taking"), then and in that event, the Prime Lease shall remain in full force and effect as to the portion of the Eagles Stadium Premises remaining immediately after such Partial Taking. Any Partial Taking to the contrary notwithstanding, the Rent and Additional Rent accruing under the Prime Lease after a Partial Taking shall not be apportioned, prorated or otherwise abated.

**City Rent Obligation Continues**

Notwithstanding any Total Taking or Partial Taking of the Eagles Stadium Premises or the leasehold estate created under the Prime Lease, whether temporary or permanent, the City's obligation to pay Rent and Additional Rent under the Prime Lease shall not be suspended, abated, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever, and the City shall continue to pay Rent and Additional Rent under the Prime Lease as if no such Total Taking or Partial Taking had occurred.

**Award**

In the event of any Taking, whether a Total Taking or Partial Taking, and whether temporary or permanent, the parties expressly agree that their rights to make claims against the condemning sovereign, municipality, or other authority, and against each other, shall be governed by the terms to be set forth in the Eagles Lease regarding condemnation and award. The foregoing to the contrary notwithstanding, in the event that any claims of the Eagles pursuant to the terms to be set forth in the Eagles Lease, and any claims of any fee or leasehold mortgagee have been satisfied, and provided that the City is not in default of the payment obligations under Section 4.1 (b) of the Prime Lease, then any remaining condemnation award, or stuns in lieu thereof relating to the Improvements, shall be promptly paid to the City provided that sufficient proceeds are made available to the Authority to provide for a cleared and safe site.

## DEFAULTS AND REMEDIES

**Defaults**

Each of the following shall constitute an "Event of Default" by the City under the Prime Lease:

(a) Any failure by the City to pay Rent or any other amount, charge, fee or sum required to be paid by the City under the Prime Lease when due;

(b) Any Act of Bankruptcy by the City;

(c) Any failure by the City to observe or perform any of the terms, covenants, agreements, provisions, conditions or limitations contained in the Prime Lease.

**Remedies**

Upon the occurrence of an Event of Default by City and at any time thereafter, the Authority shall have, in addition to all other rights available to the Authority at law or in equity, the following rights and remedies:

(a) To institute any and all proceedings permitted by law or equity including, but not limited to, an action to enjoin a violation of the Prime Lease by the City or to compel-specific performance of the Prime Lease by the City;

(b) To seek arid obtain, and the City thereby consents to the entry of, a temporary restraining order, together with such other temporary, preliminary and permanent injunctive or other equitable relief, from any court of competent jurisdiction capable of issuing or granting such relief, to compel the City to comply with or refrain or cease from breaching or violating the terms, covenants and conditions of the Prime Lease, and, with respect thereto, the City thereby waives any requirement that the Authority post a bond or other security in connection with such injunctive or other equitable relief; and

(c) To require that the City immediately pay all of the Authority's costs, charges and expenses, including, without limitation, court and other costs, expert fees, receiver and trustee's fees, consultant fees, all costs and expenses in connection with litigation, service and attorneys' fees, incurred in enforcing the City's obligations and the Authority's rights and remedies under the Prime Lease or incurred by the Authority in any litigation, negotiation or transaction in which the City causes the Authority, without the Authority's fault, to become involved or concerned.

Any provision of the Prime Lease to the contrary notwithstanding, under no circumstances shall the Authority's remedies include the right to cause an acceleration of all or any part of the Rent or a termination of the Prime Lease.

**No Waiver**

No failure or delay by the Authority to insist upon the strict performance of any term, covenant, agreement, provision, condition or limitation of the Prime Lease or to exercise any right or remedy consequent upon a breach thereof, and no acceptance by the Authority of full or partial Rent or any other payment due under the Prime Lease during the continuance of any such breach (with or without knowledge of the breach), shall constitute or be construed to constitute a waiver of any such breach or of such term, covenant, agreement, provision, condition or limitation. No term, covenant, agreement, provision, condition or limitation of the Prime Lease to be kept, observed, or performed by City, and no breach thereof, shall be waived, altered or modified except by a written instrument executed by the Authority. Any waiver of any breach shall be limited to the breach so waived, and shall not affect or alter the Prime Lease; each and every term, covenant, agreement, provision and limitation of the Prime Lease shall continue in full force and effect with respect to any other then existing or subsequent breach thereof.

**Authority's Rights Not Exclusive**

No right or remedy therein conferred upon or reserved to the Authority is intended to be exclusive of any other right or remedy therein or by law or in equity provided, but each shall be cumulative and in addition to every other right or remedy given therein or then or thereafter existing at law or in equity or by statute.

## AFFIRMATIVE ACTION AND COVENANTS AGAINST DISCRIMINATION

**Nondiscrimination**

In its performance of the Prime Lease, Authority and the City shall not discriminate or permit discrimination against any Person because of race, color, religion, national origin, age, sexual preference, sexual orientation or sex. Any such discrimination shall constitute an Event of Default under the Prime Lease and the City or the Authority shall have the right to exercise any of its rights and remedies thereunder.

**Organization Membership**

In accordance with Chapter 17-400 of The Philadelphia Code, the Authority agrees that its payment or reimbursement of membership fees or other expenses associated with participation by its employees in an exclusionary private organization, insofar as participation confers an employment advantage or constitutes or results in discrimination with regard to hiring, or tenure of employment, including but not limited to promotions, terms, privileges or conditions of employment, or on the basis of race, color, sex, sexual orientation, religion, national origin or ancestry, constitutes a substantial breach of the Prime Lease entitling the City to all rights and remedies provided in the Prime Lease or otherwise available in law or equity, subject to the provisions of Section 4.5 of the Prime Lease.

The Authority agrees to include and require to be included the immediately preceding paragraph, with appropriate adjustment for the identity of the parties, in all contracts and subcontracts which are entered into for work to be performed on behalf of Authority pursuant to the Prime Lease, if any.

The Authority further agrees to cooperate with the Commission on Human Relations of the City (the "Commission") in any manner that the Commission deems reasonable and necessary for the Commission to carry

out its responsibilities under Chapter 17-400 of The Philadelphia Code. Failure to so cooperate shall constitute a substantial breach of the Prime Lease entitling the City to all rights and remedies provided in the Prime Lease or otherwise available in law or equity.

**Nondiscrimination Clause**

During the term of the Prime Lease, the City agrees, as to itself and as to each occupant of the Eagles Stadium Premises controlling, controlled by or under common control with the City (each, a "Contractor") to not take or to allow certain actions and to take certain actions, all as more fully set forth in the Prime Lease.

## CERTAIN COVENANTS

**Payment of Authority Fees**

Notwithstanding anything to the contrary contained in the Transaction Documents, the City agreed to pay promptly when due to the Authority, or on the Authority's behalf, to the extent the same are not paid out of the proceeds of the Bonds issued by the Authority as contemplated by the Prime Lease, all fees, costs and expenses reasonably incurred by the Authority, including but not limited to reasonable attorneys fees and expenses, whenever incurred, in connection with the negotiation, execution and delivery of any of the Transaction Documents, the administration of the Eagles Stadium Premises and the Transaction Documents and the performance of any Authority duties or obligations under any of the Transaction Documents.

**Bonds and Certain Tax Matters**

The City agrees, in the event that Authority issues from time to time any Bonds in connection with the Eagles Stadium Premises:

(a) to pay promptly on Authority's behalf reasonable compensation to the Trustee and the Credit Facility Provider for their services under the Indenture and the Credit Facility, respectively, relating to the Bonds and the Credit Facility, and said Trustee's and Credit Facility Provider's reasonable expenses and disbursements, including reasonable attorney fees and expenses, incurred in connection with issuance of the Bonds and the execution, delivery and performance of obligations under the Indenture and the Credit Facility, and, further, to satisfy any indemnification obligations of the Authority to the Trustee and the Credit Facility Provider against any liabilities either may incur in the exercise and performance of their respective powers and duties and rights and remedies under the Indenture or the Credit Facility, except (i) in the case of the Trustee, those liabilities caused by the Trustee's own negligence or willful misconduct, and (ii) in the case of the Credit Facility Provider, those liabilities caused by the Credit Facility Provider's own gross negligence or willful misconduct;

(b) to the extent that any Bonds are issued on a tax-exempt basis, to execute an appropriate tax certificate as to arbitrage and instructions as to compliance with provisions of Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code") (the "Federal Tax Certificate"), if and to the extent applicable, and to comply with all provisions of the Federal Tax Certificate applicable to it and take no action which would cause the interest on the Bonds to be includable in the gross income of Holders of the Bonds under the Code; and

(c) to the extent that any Bonds are issued on a tax-exempt basis, to perform and satisfy, through the City Treasurer, the record keeping obligations of the Authority under the Federal Tax Certificate and to perform all monitoring, oversight, calculations and reporting required of the Authority under the Federal Tax Certificate to make any and all elections permitted to be made by Authority pursuant to the Code, and to comply with all requirements relating to rebate and make any required rebate payments to the United States Treasury.

**Continuing Disclosure Obligations**

In connection with Authority's issuance of the Bonds, the. Authority and the City, if required to do so, shall enter into a Continuing Disclosure Agreement or Agreements pursuant to which the Authority and City will be obligated to provide certain information and make certain filings pursuant to the requirements of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. The City thereby shall assume all responsibility for collecting the necessary information for dissemination and filing pursuant to such Continuing Disclosure Agreement or Agreements. The individual responsible for performing these duties is the City Treasurer.

**City Covenants**

The City covenants to perform its obligations under the Transaction Documents, including but not limited to the obligations imposed on the City pursuant to the Indenture, even though the City is not a party thereto, fully, faithfully and in a timely fashion. In connection with the issuance of any Bonds by the Authority, the City will provide to the Authority and the Trustee, written directions, instructions and certifications consistent in form and substance with those required to be given by the Authority to the Trustee under certain sections of the Indenture.

The City covenants to do all of the actions which the Authority covenants under the terms of the Eagles Lease to cause or require the City to do, in each case, fully, faithfully and in a timely fashion.

**Staffing Assistance**

As requested by the Authority, the City will designate certain employees who will consult with the Authority regarding the Authority's performance under the Transaction Documents and, as requested by the Authority, perform any Authority responsibilities and prepare any documents required of the Authority under the Transaction Documents. In addition, the City expressly undertakes to perform the obligations of the Authority to provide to any Credit Facility Provider, any notices of default, and all financial and litigation information regarding the City, and information regarding the Eagles Stadium Premises as may be required under, and otherwise to comply with the Authority's affirmative and negative covenants in any Credit Facility. The City Treasurer shall perform these duties.

**Rights Against the Eagles and Other Third Parties**

Provided the City is current in the performance of all of its obligations to the Authority under the Prime Lease, the City shall have the right, with the consent of the Authority, to pursue all remedies which the Authority may have against the Eagles or any third party under the Eagles Lease or against any party to any other Transaction Document or any third party thereunder.

**Litigation**

In the event of any litigation arising out of or relating to the Transaction Documents, the performance of the Authority's obligations thereunder , or by reason of the Authority's being a party thereto, including but not limited to claims by the Team; any contractor, architect or engineer (whether or not working on the Eagles Stadium Premises, if the claim relates to the Eagles Stadium Premises or the participation of the Authority or the City therein), the Trustee, Holders of the Bonds or any third party, the Authority shall, within four (4) business days of receipt, deliver all process served upon it directly to the City Solicitor. All such process will be directed to the attention of the City Solicitor. The City Solicitor will either enter its appearance on behalf of the Authority in a timely fashion or retain counsel which will enter its appearance on behalf of the Authority in a timely fashion. The City shall defend the Authority in all such actions at the City's sole cost and expense and the City shall have the right to control the defense of such proceeding but shall keep the Authority advised as to all material developments in such proceeding. All information with respect to litigation will be sent to the Authority to the attention of Philip M. Brandt, Esquire at Philadelphia Industrial Development Corporation ("PIDC"). The City Solicitor shall be permitted to arrange for defense of the Authority by any applicable insurer pursuant to any insurance policy maintained by any third party under which the Authority is an additional named insured or loss payee.

**Indemnification**

To the extent (i) that a party to any Transaction Document fails to provide reasonable and timely indemnification against Claims or Losses (as defined below), (ii) permitted by Applicable Laws and subject to the section of the Prime Lease entitled "No Waiver Immunity" and (iii) that Claims or Losses are not covered under an insurance policy maintained by a third party for the benefit of the Authority pursuant to the terms of any Transaction Document, the City agrees to indemnify, defend and hold harmless the Authority and PIDC, and each of their directors, members, officials, officers, employees, agents and representatives (each an "Indemnified Party" and collectively, the "Indemnified Parties"), from and against any and all suits, claims or causes of action (collectively "Claims"), and all liabilities, losses, obligations, damages, penalties, costs, charges, expenses, judgments and amounts paid in settlement (including without limitation, reasonable attorneys' fees) of every kind (collectively "Losses"), which may be imposed upon, incurred by or asserted against any Indemnified Party arising out of or

relating to or arising in connection with the Authority's entering into the Prime Lease or any of the Transaction Documents, the performance of any of the Authority's obligations thereunder, any acts or omissions with respect to the Authority's interest under the Prime Lease or any of the Transaction Documents, or any other acts or omissions relating to the Authority's involvement in the Eagles Stadium Premises; except in each case to the extent that the Claims and Losses are attributable to the gross negligence or willful misconduct of any such Indemnified Party. In consideration of this undertaking by the City, the Authority thereby agrees to cooperate with the City to enforce the Authority's rights under any insurance policies maintained by any third party under which the Authority is an additional named insured or loss payee, and to enforce any indemnification rights to which the Authority may be entitled under any of the Transaction Documents (including but not limited to any rights against the Team), and the City and the Authority agree to pursue all such third party insurance policies and indemnitors diligently with respect to all Claims or Losses which may be property asserted in good faith against them. The City shall be subrogated to the rights of the Authority under such insurance policies and indemnification rights; provided, however, it is expressly agreed that the City shall not have, and expressly waives, any right of subrogation under any insurance policies maintained by the Authority or PIDC. To the extent that either (i) any party to any Transaction Document, other than the City, provides reasonable and timely indemnification against any Claims or Losses, or (ii) Claims are covered by an insurer under an insurance policy maintained by a third party for the benefit of the Authority without reservation of rights and Losses under such Claims are paid by such insurer on a basis such that the Authority does not incur any liability, then in each case, the City's obligations under Section 18.8 of the Prime Lease with respect to such specific Claims and Losses will be discharged. The City acknowledges that the Authority shall not be obligated to exhaust any remedies against any third party as a condition to its right to receive indemnification under the Prime Lease. This indemnification is intended to be in addition to any indemnification by the City in favor of the Authority provided elsewhere in the Transaction Documents.

To the extent (i) that any party to any Transaction Document other than the City or Authority fails to provide reasonable and timely indemnification against Claims or Losses under the Eagles Lease, (ii) permitted by Applicable Laws and subject to the applicable Section herein, and (iii) that Claims or Losses are not covered under an insurance policy maintained by or for the benefit of the City, the Authority thereby agrees to indemnify, defend and hold harmless the City and its officers, officials, employees and agents from and against any and all Losses which may be imposed upon, incurred by or asserted against the City and its officers, officials, employees and agents arising out of or relating to the performance or breach of the obligations or representations of the Authority under the Prime Lease or any of the Transaction Documents, or (ii) any other acts or omissions of the Authority or any of its directors, members, officers, officials, employees, agents and attorneys providing services related to the Eagles Stadium Premises, in each case insofar as such Claims or Losses a rise directly or indirectly from the willful misconduct, fraud or gross negligence of the Authority or any Indemnified Party, as defined above. The liability of the Authority, PIDC and any other indemnified party under the Prime Lease is limited solely to the Authority's interest in the Eagles Stadium Premises, and the lien of any judgment shall be restricted thereto.

The Authority's taking of any action, or the failure to take any action, which it is permitted to take under the terms of the Prime Lease or any of the Transaction Documents shall under no circumstances be deemed to constitute willful misconduct, fraud or gross negligence, and furthermore, the taking of any action by the Authority, which action is directed in writing by the City, Trustee or Credit Facility Provider pursuant to the Transaction Documents shall not under any circumstances be deemed to constitute willful misconduct, fraud or gross negligence.

The parties agree that neither shall be obligated under Section 18.8 of the Prime Lease unless the Indemnifying party has been given prompt and timely notice of matters contemplated by Section 18.8 of the Prime Lease; provided, however, the failure to so notify the Indemnifying party will not relieve the Indemnifying party from any obligation under Section 18.8 of the Prime Lease except to the extent such failure has materially injured the ability of the Indemnifying party to defend such matter successfully or to minimize the economic exposure resulting therefrom.

**No Waiver of Immunity**

Nothing herein shall be construed to waive or amend any defense or immunity which the City or the Authority, or their officials, members, officers, agents, employees or representatives may have under Title 42, Chapter 85 of the Pennsylvania Consolidated Statutes Annotated, as amended or other Applicable Law. The parties expressly acknowledge that Section 18.9 of the Prime Lease is intended to preclude any third party from having any rights whatsoever under the Prime Lease against either party and is not intended in any way to constitute a defense

against, or otherwise limit, the obligations of the City under the Prime Lease to pay the costs, expenses, Claims and Losses of the Authority as provided therein.

**Nondisturbance Agreement**

Concurrently with the execution and delivery of the Eagles Lease, at the request of the Eagles or its leasehold mortgagee, the City and the Authority shall enter into a non-dish1rbance agreement thereby the City and the Authority agree not to disturb the rights of the Eagles under the Eagles Lease in substantially the same fom1 and upon substantially the same terms as are set forth in Exhibit E of the Prime Lease.

**Survival**

The rights and obligations of the parties under Article 18 shall survive termination of the Prime Lease and the defeasance of the Indenture.

## MISCELLANEOUS

**Quiet Enjoyment**

The City, upon paying the Rent and other charges provided for in the Prime Lease and upon observing and keeping all agreements, covenants and conditions of the Prime Lease on City's part to be kept, shall have and enjoy quiet possession of the Eagles Stadium Premises without hindrance or molestation by or from the Authority, subject, however, to the exceptions, reservations, terms and conditions of the Prime Lease.

**No Third Party Rights**

Except as provided (i) in Article 18 of the Prime Lease as to Indemnified Parties, (ii) in Article 4 of the Prime Lease as to the Trustee and the Credit Facility Provider, (iii) in Section 19.15 of the Prime Lease as to the Trustee, the Credit Facility Provider and the Eagles (iv) in Section 18.10 of the Prime Lease as to the Eagles and its leasehold mortgagee, and (v) in Section 18.2 of the Prime Lease as to the Trustee and the Credit Facility Provider, nothing in the Prime Lease shall be construed to constitute, create or confer rights, remedies or claims in or upon any Person not a party thereto (as third party beneficiary or otherwise), or to create obligations or responsibilities of the parties thereto to such Persons, or to permit any Person, other than the parties hereto and their respective successors and assigns, to rely upon the covenants, conditions and agreements contained therein.

**Survival**

Any and all agreements set forth in the Prime Lease which, by its or their nature, would reasonably be expected to be performed after the termination of the Prime Lease shall survive and be enforceable after such termination. Any and all liabilities, actual or contingent, which shall have arisen in connection with the Prime Lease, shall survive any termination of the Prime Lease. Any express statement of survival contained in any Section of the Prime Lease shall not be construed to affect the survival of any other Section of the Prime Lease.

**Expiration of Authority**

In the event that during the Prime Lease Term, the existence of the Authority is not renewed or extended pursuant to applicable Law and a successor to the Authority is not established, all rights and obligations of the Authority under the Prime Lease shall automatically vest in the City without any further action by the parties hereto.

**Severability**

If any term or covenant of the Prime Lease or the application thereof to any Person or circumstances shall, to any extent, be held invalid or unenforceable, the remaining terms and covenants of the Prime Lease, or the application of such term or covenant to Persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and covenant of the Prime Lease shall be valid and enforceable to the fullest extent permitted by law.

**Effect of Drafting on Construction**

The fact that the Prime Lease may have been initially drafted by the attorney for one of the parties hereto has no significance as to construction of ambiguous terms against either party, inasmuch as the Prime Lease is the product of arms-length negotiations between the parties, and no provision of the Prime Lease shall be construed against a party solely because that party or that party's counsel drafted such provision.

**Amendments**

The parties to the Prime Lease, from time to time may enter into any amendments thereto (which thereafter shall form a part thereof) without the consent of any other parties such as shall not adversely affect the rights of or the security of the Holders (as defined in the Indenture), only for the following purposes:

(a) To cure any ambiguity, defect or omission therein or in any amendment thereto or to supplement any provision thereof, provided such cure shall not materially adversely affect the Eagles, the Holders or the Credit Facility Provider; or

(b) To reflect a change in Applicable Law which shall not impair the security hereof or materially adversely affect the rights of the Holders, the Eagles or the Credit Facility Provider; or

(c) To provide for additional Rent thereunder to the extent necessary in connection with the issuance of additional debt; or

(d) To add to the covenants and agreements of the City therein contained, or to surrender any right or power herein reserved to or conferred upon the City which shall not impair the security hereof nor materially adversely affect the rights of the Eagles, the Holders or the Credit Facility Provider.

The Trustee, the Credit Facility Provider and the Eagles shall be provided notice of any amendments with respect to (a), (b), (c) and (d) of Section 19.15 of the Prime Lease. All other amendments must be approved by the Eagles, the Trustee (if the Trustee's approval is required in accordance with the Indenture) and the Credit Facility Provider (if the Credit Facility Provider's approval is required in accordance with the terms of the Credit Facility), and, if the Indenture must be amended with Holders' consent, the Holders, in the same manner and to the same extent as is set forth in the applicable Article of the Indenture.

Notwithstanding the foregoing, the Authority shall not amend the Prime Lease: (a) other than as provided in the Indenture; and (b) without the consent of Dexia Credit Local, acting through its New York Agency ("Dexia"); provided, however, that Dexia shall be deemed to have consented to any modification, amendment or supplement of, or waiver with respect to, the Prime Lease if (i) Dexia shall have failed to respond to a written request of the Authority for Dexia's consent thereto within ten (10) days after receipt by Dexia of such request, and (ii) such request shall have indicated thereon that Dexia shall be deemed to have consented thereto unless Dexia responds to such request within ten (10) days after receipt by Dexia of such request; and provided further, however, that Dexia's right to consent to amendments to the Prime Lease shall terminate upon (i) surrender of the Credit Facility issued by Dexia for cancellation, and (ii) payment in full by the Authority of all of its obligations to Dexia under that certain Letter of Credit and Reimbursement Agreement, dated as of April 1, 2001 between the Authority and Dexia.

**No Modification**

The Prime Lease is intended by the parties as a final expression of their agreement and as a complete and exclusive statement of the terms thereof, all negotiations, considerations and representations between the parties having been incorporated herein. No course of prior dealings between the parties or their officers, employees, agents or Affiliates shall be relevant or admissible to supplement, explain, or vary any of the terms of the Prime Lease. No prior agreement, course of dealing or custom between the parties or their Affiliates shall be relevant or admissible to determine the meaning of any of the terms of the Prime Lease. No representations, understandings, or agreements have been made or relied upon in the making of the Prime Lease other than those specifically set forth herein. The Prime Lease can be modified only by a writing signed by the party against whom the modification is enforceable subject to Section 19.15 of the Prime Lease.

**No Personal Liability**

Notwithstanding any provision or obligation to the contrary set forth in the Prime Lease, no provision of the Prime Lease or any related document shall be construed so as to give rise to a pecuniary liability of the Authority or any of its members, officers, agents or employees or to give rise to a charge upon the general credit of the Authority or such members, officers, agents or employees; any pecuniary liability under the Prime Lease of the Authority under any theory of law, including contract or tort, shall be limited exclusively, to its interest in the Eagles Stadium Premises and the lien of any judgment shall be restricted thereto.

No member, director, officer, official, employee or agent of any party to the Prime Lease shall be personally liable for any costs or obligations of such party. All Persons, corporations, or other, entities extending credit to, contracting with or having any claim against any party, may look only to the funds or property of such party legally available for the purpose for payment of any such suit, contract or claim to the extent such party is liable therefor, or for the payment of any costs that may become due or payable to them from any party, respectively, and not from any member, director, officer, official, agent or employee of any party.

**EXHIBIT "F" TO PRIME LEASE (EAGLES STADIUM LAND & IMPROVEMENTS)**
**EAGLES OPERATING AND EXPENSE REIMBURSEMENT**

| Year | Payment |
|---|---|
| 2000 | |
| 2001 | |
| 2002 | |
| 2003 | 6,820,000 |
| 2004 | 6,820,000 |
| 2005 | 6,820,000 |
| 2006 | 6,820,000 |
| 2007 | 6,820,000 |
| 2008 | 7,840,000 |
| 2009 | 7,840,000 |
| 2010 | 7,840,000 |
| 2011 | 7,840,000 |
| 2012 | 7,840,000 |
| 2013 | 9,010,000 |
| 2014 | 9,010,000 |
| 2015 | 9,010,000 |
| 2016 | 9,010,000 |
| 2017 | 9,010,000 |
| 2018 | 10,370,000 |
| 2019 | 10,370,000 |
| 2020 | 10,370,000 |
| 2021 | 10,370,000 |
| 2022 | 10,370,000 |
| 2023 | 11,920,000 |
| 2024 | 11,920,000 |
| 2025 | 11,920,000 |
| 2026 | 11,920,000 |
| 2027 | 11,920,000 |
| 2025 | |
| 2026 | |
| 2027 | |
| 2028 | |
| 2029 | |
| 2030 | |
| 2031 | |
| 2032 | |

## PRIME LEASE
## (PHILLIES BALLPARK LAND & IMPROVEMENTS)

The following description of certain provisions of the Prime Lease (PHILLIES BALLPARK LAND & IMPROVEMENTS) (the "Prime Lease") set forth below is only an outline of some of the provisions thereof and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Prime Lease in its entirety, copies of which are on file at the corporate trust office of the Trustee in Philadelphia, Pennsylvania, for the complete statements of the provisions thereof.

### DEFINITION OF TERMS

Wherever used in the Prime Lease, the following terms shall have the following meanings:

"Act" shall mean Economic Development Financing Law, Act No. 102 of the General Assembly of the Commonwealth of Pennsylvania approved August 23, 1967 (P.L. 251), as amended and supplemented.

"Act of Bankruptcy" shall mean that (i) a patty shall have commenced a voluntary case under any bankruptcy law, applied for or consented to the appointment of, or taking of possession by, a receiver, trustee, assignee, custodian or liquidator of all or a substantial part of its assets; (ii) a party shall have failed, or admitted in writing its inability generally, to pay its debts as such debts become due; (iii) a party shall have made a general assignment for the benefit of creditors; (iv) a party shall have been adjudicated a bankrupt, or shall have filed a petition or an answer seeking an arrangement with creditors; (v) a party shall have taken advantage of any insolvency law, or shall have submitted an answer admitting the material allegations of a petition in bankruptcy or insolvency proceeding; (vi) an order, judgment or decree for relief shall have been entered in an involuntary case against a party, without the application, approval or consent of such party, by any court of competent jurisdiction appointing a receiver, trustee, assignee, custodian or liquidator, for the party or for a substantial part of any of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) consecutive days; or (vii) an involuntary petition in bankruptcy shall have continued undismissed for sixty (60) days after the filing thereof.

"Additional Land" shall mean, collectively, the land which has a use functionally related and accessory to the Phillies Ballpark Premises and shall mean, for the purposes of the Prime Lease, collectively, the land known as the "North Lot", as more particularly described on Exhibit "C" of the Prime Lease and the land known as the "Veterans Stadium", as more particularly described on Exhibit "D" of the Prime Lease.

"Additional Rent" shall mean all sums payable by the City under the Prime Lease, other than (and in addition to) the Rent (as defined below).

"Affiliate" or "Affiliates" shall mean as to any Person, any other Person controlled by, controlling of, or under common control with such Person.

"Applicable Laws" shall mean the constitution and laws of the United States of America, the constitution and laws of the Commonwealth of Pennsylvania and all rules and regulations promulgated pursuant thereto, and shall include but not be limited to the Home Rule Charter of the City of Philadelphia and the City of Philadelphia Code.

"Authority" shall mean the Philadelphia Authority for Industrial Development, a body politic and corporate existing under the laws of the Commonwealth.

"Authority Contractual Commitments" shall mean obligations of the Authority as set forth in the Phillies Lease for reimbursement of excess tax payments on account of real estate taxes, amusement taxes and use and occupancy taxes which are payable by the Phillies in excess of the base amounts to be set forth in the Phillies Lease.

"Bonds" shall mean those bonds, notes or other forms of indebtedness issued for the purpose of financing or refinancing a portion of the Phillies Ballpark Premises, Additional Land, demolition, site preparation, improvements and infrastructure in connection therewith and a portion of any and all other costs incurred in connection with the sports stadia in an aggregate principal amount not to exceed Two Hundred Two Million Five Hundred Thousand Dollars ($202,500,000) net of original issue discount, plus amounts necessary for any reserves, capitalized interest, costs of issuance, amounts necessary to effect any refunding and such amount as may be finally determined to be owed to any condemnees as Just Compensation (as defined in the Pennsylvania Eminent Domain Code), at any one time outstanding; provided that in no event shall the term of each series of Bonds exceed thirty (30) years from the date of issuance of such series of Bonds, provided further that in the case of any series of refunding bonds the term of such Bonds shall not exceed thirty (30) years from the date of issue of the Bonds to be refunded.

"City" shall mean, the City of Philadelphia, a City of the First Class of the Commonwealth, acting through its Commerce Department and Department of Public Property.

"Commonwealth" shall mean the Commonwealth of Pennsylvania.

"Credit Facility" shall mean any letter of credit, liquidity facility, standby bond purchase agreement, line of credit, surety bond, insurance commitment, insurance policy or similar agreement with respect to the Bonds and any credit, loan or reimbursement agreement or other obligation of the Authority to the Credit Facility Provider in connection therewith, and all documents collateral thereto, as may be substituted from time to time.

"Credit Facility Provider" shall mean the provider of any Credit Facility as may be substituted from time to time.

"Fiscal Year" shall mean July 1 through and including June 30 of the following calendar year.

"Force Majeure Event" shall mean any event (except for the payment of money) which is beyond the reasonable control of, and is not caused by the fault or negligence of, the party asserting the Force Majeure, which wholly or partially prevents the performance of any of the duties, responsibilities or obligations of the party asserting the Force Majeure and the term "Force Majeure" shall include, but not be limited to, an act of God, an act of the public enemy, lightning, fire, explosion or other serious casualty; unusually severe weather (such as hurricane, earthquake, tornado, landslide or flood); war (whether declared or not); or condemnation or other taking by the action of any governmental body on behalf of any public, quasi-governmental or private entity.

"Ground Lease" shall mean Ground Lease dated April 1, 2001, as amended by the First Amendment to Ground Lease dated July 12, 2001 and a Second Amendment to Ground Lease dated November 28, 2001, between the City, as landlord, and the Authority, as tenant, pursuant to which the City has agreed to lease and the Authority has agreed to take and hire the Phillies Ballpark Land (as such term is hereinafter defined).

"Improvements" shall mean those certain structures and improvements, including but not limited to a new stadium and related improvements and amenities on the Phillies Ballpark Land.

"Indenture" shall mean one or more instruments executed and delivered by and between the Authority and the Trustee (defined below) governing the issuance and administration of the Bonds for the benefit of the holders thereof.

"Person" shall mean an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, estate, unincorporated association, joint venture or any other entity, the United States, a state, or political subdivision thereof, or any agency, department or court thereof.

"Phillies" shall mean The Phillies, a Pennsylvania limited partnership or its successor with respect to the franchise, herein referred, or controlled affiliate, which is the holder of the franchise for a geographic area which includes the City issued by the National League and is the owner of the Major League Baseball team known as The Phillies.

"Phillies Lease" shall mean that certain Sublease and Development Agreement entered into between the Authority, as landlord, and the Phillies, as tenant, pursuant to which the Authority intends to lease and the Phillies intend to take and hire the Phillies Ballpark Land and to construct thereon certain structures, including, but not limited to a new stadium and Improvements.

"Phillies Lease-Back Lease" shall mean that certain lease by and between the City, as landlord, and the Authority, as tenant, dated April 1, 2001 , as amended by the First Amendment to Lease-Back Lease dated July 12, 2001 and a Second Amendment to Lease-Back Lease dated November 28, 2001, with respect to the Phillies Ballpark Premises.

"Phillies Ballpark" shall mean the baseball Ballpark to be constructed on the Phillies Ballpark Land as contemplated by the Phillies Lease.

"Phillies Ballpark Land" shall mean the 26 acres of land described on Exhibit A to the Prime Lease and any and all appurtenances, easements, rights, licenses, hereditaments and privileges as may in any way belong to or appertain thereto or inure to the benefit thereof.

"Phillies Ballpark Premises" shall mean the Phillies Ballpark Land and the Improvements, together with all improvements and appurtenances now existing or in the future constructed thereon.

"Prime Lease" shall mean the Prime Lease between the Authority and the City dated April 1, 2001, as amended by the First Amendment to Prime Lease dated July 12, 2001 and a Second Amendment to Prime Lease dated November 28, 2001.

"Team" shall mean the Phillies together with any successor or holder of said franchise or controlled affiliate.

"Transaction Documents" shall mean the Ground Lease, the Prime Lease, the Phillies Lease-Back Lease, the Phillies Lease, the Indenture, the Bonds, the Credit Facility, any bond purchase contract and documents collateral thereto, and any other financing documents and other related documents.

"Trustee" shall mean the bank or other institutional lending entity acting as trustee under the Indenture governing the Bonds.

## DEMISE OF PHILLIES BALLPARK PREMISES

### Demise of Phillies Ballpark Premises

On the Commencement Date in consideration of the Rent and Additional Rent thereinafter reserved and the terms, covenants, conditions and agreements set forth in the Prime Lease, the Authority demises and lets unto City, and City hires and leases from the Authority, the Phillies Ballpark Premises and any other improvements and appurtenances then existing or in the future constructed on the Phillies Ballpark Premises, for the Prime Lease Term, upon and subject to the conditions, terms, agreements and covenants set forth therein. At all times during the Prime Lease Term, ownership of and title to the Phillies Ballpark Land shall be and remain in the City, subject to the Authority's leasehold under the Ground Lease, the City's leasehold under the Prime Lease, and the other leaseholds contemplated thereby; and ownership and title to the Phillies Ballpark Premises (excluding Phillies Ballpark Land) and all other improvements and appurtenances on the Phillies Ballpark Premises, whether then existing or thereafter constructed, shall be and remain in the Authority, subject to the interests of the Phillies and its Affiliates to be granted and established in the Phillies Lease.

### Condition of Phillies Ballpark Premises

The City acknowledges and agrees to accept the Phillies Ballpark Premises, subsurface conditions, and the present uses and non-uses thereof without recourse to Authority, in its and their "AS IS," "WHERE IS" condition, as the same may be modified, altered, improved, constructed or reconfigured from time to time. The City expressly acknowledges that the Authority has made no promises to alter, remodel, improve, repair, decorate or clean the same or any part thereof and makes no representation or warranty, express or implied, in fact or arising by operation of law, of, as to, or concerning, the Phillies Ballpark Premises or the sidewalks and structures adjoining the same,

subsurface conditions, and the present uses and non-uses thereof, including without limitation, health, safety, or environmental matters, accessibility for disabled persons, the compliance of the same with any Applicable Laws, the nature, condition or usability thereof, the use or uses to which the same or any part thereof may be put, or any other matter or thing affecting or relating thereto. The provisions of Section 2.2 of the Prime Lease have been fully negotiated at arm's-length between the parties hereto and are intended to be a complete exclusion and negation of any warranties or promises by the Authority, express or implied, with respect to the Phillies Ballpark Premises. The provisions of Section 2.2 of the Prime Lease shall survive the expiration or earlier termination of the Prime Lease.

**Inability to Deliver**

If, subject to Force Majeure Events or any other event or occurrence which is beyond the Authority's control, the Authority does not deliver the Phillies Ballpark Premises to City on or before July 1, 2001 , the Prime Lease shall not terminate and the Authority shall not be liable or responsible for any damages of any kind for failure to deliver possession, but City and Authority shall promptly meet for purposes of determining a mutually acceptable extension for delivery of the Phillies Ballpark Premises. In any case, failure of the Authority to deliver the Phillies Ballpark Premises shall not in any way affect the City's obligation to pay Rent thereunder.

**Title**

The City acknowledges and agrees that the Prime Lease and the City's leasehold estate thereunder, are and shall be under and subject to the Ground Lease and matters of record and any condition which a current accurate survey of the Phillies Ballpark Land would disclose. The Authority covenants and agrees that it shall not further encumber the fee title to the Phillies Ballpark Land (other than by entering into the Phillies Lease-Back Lease and the Phillies Lease), by operation of law or otherwise, during the Prime Lease Term without the prior written consent of the Director of Commerce of the City, which consent shall not be unreasonably withheld, conditioned or delayed.

## PRIME LEASE TERM

**Prime Lease Term**

The term of the Prime Lease (the "Prime Lease Term") shall commence upon the earlier to occur of the date on which (a) the Phillies Ballpark Land is acquired by the City, or (b) the Bonds are issued ("Commencement Date"), and shall expire on the later of: (A) the date which is thirty (30) days after the expiration or earlier termination of the term to be set forth in the Phillies Lease, as it may be renewed or extended; or (B) the date which is thirty (30) days after the last of the Bonds are no longer outstanding under the Indenture and there shall have been a defeasance of the lien of the Indenture and the Authority's obligations under the Indenture have been duly terminated pursuant to its terms and there is no outstanding obligation under any Credit Facility, or (C) such later date as may be necessary for the Authority, acting diligently, to comply with any covenant, condition, term or provision of the Indenture or to be set forth in Phillies Lease, or to exercise any of the remedies provided to the Authority herein for the benefit of the Trustee under the Indenture.

## RENT

**Rent**

In consideration of the Authority's entering into the Ground Lease, the Prime Lease and the Phillies Lease-Back Lease Agreement, including but not limited to its obligation with respect to any financing or refinancing of the obligations undertaken by the Authority under the Prime Lease or under the Phillies Lease, such as the sale of the Bonds, the City hereby agrees to pay as rent ("Rent") to the Authority, or the Trustee or the Credit Facility Provider on behalf of the Authority, as hereinafter described, the following amounts (all of which together shall constitute Rent) in the following order of payment priority:

When the Authority issues its Bonds, then:

(1) for deposit in accordance with the Indenture, at least one business day prior to each date that principal of and premium, if any, and interest on the Bonds, or any portion thereof, shall be due and payable, whether by maturity, redemption or otherwise (other than by acceleration under the Indenture), an amount which, together with other moneys under the Indenture available therefor is sufficient to make the Authority's required payments of principal of, premium, if any, and interest on the Bonds then becoming due, whether by maturity, redemption or otherwise (other than by acceleration under the Indenture) until the principal of, or redemption

premium, if any, and interest on the Bonds shall have been paid in full or provision for the payment thereof shall have been made in accordance with the provisions of the Indenture; and

(2) for deposit in accordance with the Indenture or Credit Facility, in the manner provided therein, the amounts required to satisfy the timely payment (other than by acceleration) of any reimbursement obligation (including interest thereon) and any fees, expenses, charges and indemnification pursuant to the Credit Facility and related documentation; and

(3) payments required pursuant to any swap agreements; and

(4) additionally, from time to time, certain amounts due in connection with the issuance of Bonds in connection with the Phillies Ballpark Premises on behalf of the Authority; and

(5) additionally, from time to time, the City shall be required to make payments necessary to make up any deficiency in the funds established under the Indenture (other than as a result of acceleration under the Indenture or the Credit Facility), including an amount which is sufficient to make any payment required to be made by the Authority to the United States Treasury, as provided in the Indenture, as determined and specified in writing by the City, other than as stated in (1) above, and to make payments to reimburse the Authority for any premiums paid for insurance policies purchased by the Authority, to the extent that the City has funds appropriated for such purposes in such Fiscal Year; and

(6) all Rent payable under subparagraphs (1) through (5) above shall be paid in immediately available funds and held, invested, disbursed and applied as provided in the Indenture or any Credit Facility; provided, however, that, on or before forty-five (45) days prior to any Sinking Fund Installment Date, the City may deliver to the Trustee, Bonds of a maturity, a portion of which is required to be redeemed by the Trustee on such Sinking Fund Installment Date, and the Rent required to effect such redemption otherwise due from the City shall be reduced by the aggregate principal amount of the Bonds so delivered; up to the full amount of such Sinking Fund Installment; and

(7) The Authority directs the City to pay the Rent due under Section 4.l(a) of the Prime Lease (other than fees, expenses and indemnities owing the Credit Facility Provider) to the Trustee to which, under the terms of the Prime Lease and of the Indenture, the Prime Lease (as provided in the Indenture) and the Rent due under Section 4.l(a) of the Prime Lease (other than fees, expenses and indemnities owing to the Credit Facility Provider) are assigned. That portion of the Rent due under Section 4.l(a) of the Prime Lease representing fees, expenses and indemnities owing to the Credit Facility Provider shall be paid by the City directly to the Credit Facility Provider; and

(8) Except for Rent due during the period with respect to which the Notes are Outstanding (as defined in the Indenture), which Rent shall be determined from time to time, the Rent due under Section 4.l(a) of the Prime Lease shall be determined on an annual basis by the City Treasurer for each fiscal year of the City based upon the principal amount of Outstanding Bonds issued under the Indenture.

An amount necessary to fulfill the Authority Contractual Commitments including reimbursement of excess tax payments on account of real estate taxes, amusement taxes and use and occupancy taxes which are payable by the Phillies in excess of the base amounts to be set forth in the Phillies Lease, the PILOT Agreement or the Use and Occupancy Tax Settlement Agreement (the PILOT Agreement and the Use and Occupancy Tax Settlement Agreement being defined in and attached to the Phillies Lease).

If the monies available to the Authority to meet its requirements under the Indenture or under the Bonds are insufficient to pay the Authority's obligations thereunder, then the City upon demand shall pay to the Authority or its assigns under and pursuant to Section 4.3 of the Prime Lease such additional sum or sums, in each Fiscal Year as are required for such purposes subject to the provisions of Section 4.2(a) of the Prime Lease. Notwithstanding any provision to the contrary, there shall be no acceleration of the Rent payments under the Prime Lease.

Notwithstanding any other provision of the Prime Lease, the City's obligation to pay the Rent as set forth in Section 4.1(a) of the Prime Lease shall terminate upon the date ("Partial Rent Termination Date") upon which neither the Bonds nor any obligations under the Credit Facility are outstanding, and there shall have been a defeasance of the lien of the Indenture. During the remainder of the Prime Lease Term following such date. Rent

shall mean the sum of One Dollar ($1.00) per year plus the Authority Contractual Commitments as set forth in the Prime Lease.

The City may make payments in advance at any time, on account of Rent payable pursuant to Section 4.1(a) of the Prime Lease, in one or more prepayment installments, which amounts shall be credited against the Rent at the time next due, unless otherwise directed by the City. Alt such prepayments shall be deposited in accordance with the Indenture and the Credit Facility.

Notwithstanding anything in the Prime Lease to the contrary, the Rent under Section 4.1 (a) of the Prime Lease due and payable may also secure indebtedness issued pursuant to the Indenture in addition to the Bonds.

Additional debt issued for the purposes for which the Bonds may be issued, may be issued only through an amendment to the Prime Lease, to the extent that such additional debt exceeds the authorized amount set forth in the definition of "Bonds" therein (the foregoing shall not be construed as a limitation of any approval of the City Council of the City that may be required with respect to any such amendment).

**Manner of Rent and Additional Rent Payment by City: Appropriations:**
**Failure to Pay Rent and Additional Rent.**

The Rent and Additional Rent shall be payable only out of the current revenues of the City and the City agrees to provide for payment of the Rent and Additional Rent and include the same in the City's annual operating budget for each Fiscal Year of the City. If the current revenues of the City are insufficient to pay the Rent and Additional Rent in any Fiscal Year as the same becomes due and payable, the City shall include amounts not so paid in the City's operating budget for the ensuing Fiscal Year and shall produce sufficient current revenues to pay in the ensuing Fiscal Year such balance due for the preceding Fiscal Year in addition to the amount of Rent and Additional Rent due for the ensuing Fiscal Year.

The City covenants to make appropriations in each of its Fiscal Years in such amounts as shall be required to make all Rent and Additional Rent payments due and payable under the Prime Lease and all payments due under Article 18 of the Prime Lease in each of the City's Fiscal Years.

The failure of the City to make any payment of Rent and Additional Rent or any other amounts due pursuant to Article 18 of the Prime Lease on the date specified for payment shall constitute a default under the Prime Lease.

Anything in the Prime Lease to the contrary notwithstanding, no payments under the Prime Lease shall be characterized as debt or deemed to be debt of the City under Article IX of the Constitution of the Commonwealth of Pennsylvania. The City's obligation to make payments of Rent and Additional Rent to the Authority under the Prime Lease is payable from the current general revenues of the City, but shall not constitute a pledge of or a grant of a security interest in the general tax revenues of the City.

**Assignment by Authority**

The Authority, immediately following the execution and delivery of the Prime Lease, may assign, transfer and set over all right, title and interest of the Authority in and to the right to receive the Rent under Section 4.l(a) of the Prime Lease to the Trustee and the rights and remedies related thereto, in trust, to be held, and applied pursuant to provisions of the Indenture, for the benefit of the Holders (as defined in the Indenture) and the Credit Facility Provider and/or to the Credit Facility Provider. The City: (a) consents to such assignment and accepts notice thereof with the same legal effect as though such acceptance were embodied in a separate instrument, separately executed after execution of such assignment; (b) agrees to pay directly to the Trustee, all Rent payable under Section 4.1 (a) of the Prime Lease (other than Rent payable in respect of the fees, expenses and indemnities owing to the Credit Facility Provider and such amounts due under Section 18.2 of the Prime Lease) and directly to the Credit Facility Provider all Rent payable under Section 4.l(a) of the Prime Lease in respect of fees, expenses and indemnities owing to the Credit Facility Provider under the Credit Facility, in each case, without any defense, setoffs or counterclaim; and (c) agrees that the Trustee and the Credit Facility Provider may exercise all rights and remedies granted to the Authority under the Prime Lease with respect to such Rent (which are assigned to the Trustee and the Credit Facility Provider, respectively).

**Assignment by the City**

Prior to providing for the payment in full of outstanding Bonds or the earlier redemption thereof, the defeasance of the lien of the Indenture, and the payment in full of any outstanding obligation under any Credit Facility, without the prior written consent of the Authority, the Trustee and the Credit Facility Provider, the City may not by operation of law or otherwise assign, transfer, mortgage, pledge, hypothecate, encumber or otherwise dispose of the Prime Lease or any interest therein.

**No Suspension or Abatement of Rent and Additional Rent**

The City shall pay the Rent as required under Section 4.1 of the Prime Lease and Additional Rent without suspension or abatement of any nature. So long as (i) the Bonds remain outstanding, (ii) the lien of the Indenture has not been defeased, (iii) there exists any outstanding obligation under any Credit Facility, or (iv) the Authority shall have any obligation to the Phillies under the Phillies Lease, the obligation of the City to pay the Rent and Additional Rent payable under the Prime Lease strictly in accordance with the terms of the Prime Lease shall be an absolute and unconditional obligation of the City and shall not be suspended, abated, reduced, abrogated, waived, diminished or otherwise modified in any manner or to any extent whatsoever, and regardless of any rights of setoff, recoupment or counterclaim that the City might otherwise have against the Authority, the Phillies, the Credit Facility Provider or the Trustee or any other party or parties and regardless of any contingency, act of God, event or cause whatsoever and notwithstanding any circumstances or occurrence that may arise or take place after the date of the Prime Lease, including without limiting the generality of the foregoing those items set forth under Section 4.5(a)(i) through (xv) of the Prime Lease.

Except to the extent provided in and subject to Section 4.5 and in Article 15 of the Prime Lease, nothing contained in the Prime Lease shall be construed to prevent or restrict the City from asserting any rights which it may have under the Prime Lease or any provision of law against the Authority or the Trustee.

Notwithstanding any provision in the Prime Lease concerning the termination of the Prime Lease or the leasehold created therein, the City and Authority agree that, as long as (i) the Bonds are outstanding, (ii) the lien of the Indenture has not been defeased, (iii) there exists any obligation under any Credit Facility, or (iv) the Authority shall have any obligation to the Phillies under the Phillies Lease, in pursuing their remedies under Article 15 of the Prime Lease they shall not terminate the Prime Lease or the leasehold created thereby or cease payment of the Rent and Additional Rent.

**Approval by the City**

The terms and conditions of the Indenture, the Credit Facility, the identity of the Credit Facility Provider, the form of the Bonds and the collateral security therefor, if any, shall be subject to the prior written approval of the City, acting through its Director of Finance, which may be granted or withheld in its sole discretion.

## OWNERSIITP OF INTERESTS

**City Leasehold Interest**

On the last day of the Prime Lease Term, or upon any earlier termination of the Prime Lease, the City's leasehold interest shall revert to the Authority without the necessity of any further action by either Authority or the City; provided, however, that, upon the Authority' s request, the City shall execute and deliver to the Authority (in recordable form where necessary or appropriate) all documents necessary to evidence such reversion.

## REAL ESTATE TAXES

**Real Estate Taxes**

Unless otherwise provided in Article 18 of the Prime Lease, the City shall not be liable or responsible during the Prime Lease Term for the payment of any real estate taxes or any payment or other charge in lieu of real estate taxes, if and to the extent any such taxes, payments or charges are permitted by Applicable Laws to be

assessed with respect to the Phillies Ballpark Premises. Nothing in the Prime Lease shall be construed to alter, amend or in any way affect the liability of the Phillies under the Phillies Lease or Applicable Law for the payment of any taxes or payments or other charges in lieu thereof accruing or payable with respect to the Phillies Ballpark Premises, or the use and enjoyment thereof by the Phillies, the City or by any other user thereof.

## USE OF PHILLIES BALLPARK PREMISES

### City Compliance with Applicable Laws

In the exercise of its rights under the Prime Lease, the City shall, at all times during the Prime Lease Term, comply with all Applicable Laws now or hereafter enacted or promulgated, and whether or not such Applicable Laws can be said to be within the present contemplation of the parties; provided that, except as provided in Article 18 of the Prime Lease, City shall have no obligation to perform construction or alterations, or maintenance, repairs, or replacements, whether ordinary or extraordinary, operating, routine, or capital in nature, in, on, or about any portion of the Phillies Ballpark Premises or the improvements and the other improvements, fixtures and appurtenances erected thereon.

## MAINTENANCE, REPAIR AND ALTERATIONS

### City Liability for Operations and Maintenance of Phillies Ballpark Premises

Except as otherwise provided in Article 18 of the Prime Lease, the Authority acknowledges and agrees that in no circumstance whatsoever will the City have any liability to pay any sums toward or for any of the operating and maintenance costs of the Phillies Ballpark Premises or the improvements, or any other improvements, fixtures or appurtenances forming any part of the Phillies Ballpark Premises (provided that nothing in Section 8.1 of the Prime Lease is intended to relieve the City from its obligations pursuant to the Prime Lease for payments of Rent and Additional Rent).

### No Obligation of City

Except as otherwise provided in Article 18 of the Prime Lease and as may be provided in the Phillies Lease, it is expressly understood and agreed by the Authority that the City shall not be required, and shall not be responsible or liable in any way whatsoever, to maintain, alter, repair, build, rebuild or replace all or any portion of the Phillies Ballpark Premises (whether such work be interior or exterior, structural or nonstructural, ordinary or extraordinary, foreseen or unforeseen, capital or routine); provided, however, that nothing in Section 8.2 of the Prime Lease shall in any way alter or diminish the City's obligation to pay Rent and Additional Rent.

### No Liability of City

Except as otherwise provided in Article 18 of the Prime Lease, the City shall not in any event be liable or responsible by virtue of the Prime Lease for any injury or damage to any property or to any Person happening on, or in or about the Phillies Ballpark Premises, nor for any injury or damage to the Phillies Ballpark Premises, nor to any property, whether belonging to Authority or any other Person, caused by any fire, breakage, leakage, defect or bad condition in any part of the Phillies Ballpark Premises, or from water, rain or snow that may leak into, issue or flow from any part of the Phillies Ballpark Premises from the drains, pipes, or plumbing work of the same, or from any place or quarter, or due to the use, misuse or abuse of all or any of the openings or installations of any kind whatsoever which may thereafter be erected or constructed in or on the Phillies Ballpark Premises, or from any kind of injury which may arise from any other cause whatsoever on the Phillies Ballpark Premises.

## ASSIGNMENT AND SUBLETTING

### No Assignment by City

In addition to and without limiting in any way the provisions of Section 4.4 of the Prime Lease, the City shall not, by operation of law or otherwise, sublet, assign, transfer, mortgage, pledge, hypothecate, encumber or otherwise dispose of the Prime Lease, or any interest in, to or under the Prime Lease for the Phillies Ballpark Premises (or any part thereof) without prior written approval of the Authority.

**Authority Consent to Assignment**

The Authority has the absolute right to withhold its consent without giving any reason whatsoever to any assignment, transfer, mortgage, pledge, hypothecation, encumbrance or other disposition of the Prime Lease or City's interest in the Prime Lease. In no event shall the Prime Lease be assigned or assignable by operation of law, attachment, assignment for the benefit of creditors or otherwise, or by voluntary or involuntary bankruptcy proceedings (it being understood and agreed that any such assignment shall be null and void, of no force or effect and inoperative), and in no event shall the Prime Lease or any rights or privileges thereunder be an asset of City under any bankruptcy, insolvency or reorganization proceedings.

**City to Remain Obligated**

Notwithstanding anything contained in the Prime Lease to the contrary, any assignment, subletting, use, occupancy or transfer under the Prime Lease (whether with or without the consent of the Authority) shall not operate to relieve the City from any covenant or obligation under the Prime Lease, or be deemed to be a consent to or relieve the City or any assignee, subtenant or sublicensee permitted pursuant to the Prime Lease from obtaining the Authority's prior written consent to any subsequent assignment, transfer, lien, charge, subletting, use or occupancy (which may be withheld by the Authority in its sole discretion), and City shall continue to remain primarily, jointly and severally liable and obligated for any and all covenants and obligations under the Prime Lease, including but not limited to the obligations to pay Rent and Additional Rent pursuant to the terms of the Prime Lease.

**Permitted Subletting**

Notwithstanding the foregoing prohibition on assigning set forth above, the City shall have the right to let or sublet the Phillies Ballpark Premises to Authority for further sub-lease to Phillies pursuant to the Phillies Lease.

## CASUALTY

**Terms of Phillies Lease Controls**

In the event of casualty to some or all of the Phillies Ballpark Premises, the terms and conditions to be set forth in the Phillies Lease regarding casualty shall control the parties' respective rights following such casualty; provided, however, that notwithstanding any damage or destruction to some or all of the Phillies Ballpark Premises, the City's obligation to pay Rent and Additional Rent under the Prime Lease and to fulfill its obligations under Article 18 of the Prime Lease shall not be suspended, abated, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever, and the City shall continue to pay Rent and Additional Rent and to fulfill its obligations under Article 18 of the Prime Lease as if no such damage or destruction had occurred. The foregoing to the contrary notwithstanding, in the event that any claims of the Phillies pursuant to the terms to be set forth in the Phillies Lease, and any claims of any fee or leasehold mortgagee have been satisfied, then any remaining casualty insurance proceeds shall be promptly paid to the City provided that sufficient proceeds are made available to the Authority to provide for a cleared and safe site.

## SURRENDER OF PHILLIES BALLPARK PREMISES

**Surrender of Phillies Ballpark Premises**

Upon the expiration or earlier termination of the Prime Lease, the City shall peaceably and quietly surrender, vacate, and deliver up possession of the Phillies Ballpark Premises to the Authority, and the City's and Authority's rights and obligations regarding the Phillies Ballpark Premises, including but not limited to the Improvements, shall be governed in accordance with the terms to be set forth in the Phillies Lease regarding surrender of the Phillies Ballpark Premises.

## LEASEHOLD MORTGAGES

### Leasehold Mortgages

At no time during the Prime Lease Term shall City engage in any financing or other transaction creating any mortgage upon, indenture, trust agreement, or other security interest in, the Phillies Ballpark Premises, the Prime Lease or City's interest in any of the foregoing, or any portion thereof (collectively, a "Leasehold Mortgage"), Any placement or attempted or purported placement of a Leasehold Mortgage upon the Phillies Ballpark Premises or any portion thereof without the Authority's prior written approval shall be null and void, inoperative, of no force or effect and shall constitute an Event of Default under the Prime Lease on the date of its execution or filing of record, or attempted or purported execution, or filing of record, regardless of whether or when it is foreclosed or otherwise enforced. City expressly consents and agrees, however, that Authority may assign, transfer, and pledge the Prime Lease or the Rent as otherwise expressly provided in Article 4 of the Prime Lease. Nothing contained in the Prime Lease is intended to prevent the Phillies from granting leasehold mortgages and security interests upon their interest in the Phillies Lease in accordance with the terms of the Phillies Lease.

## CONDEMNATION

### Notice of Taking

The City and the Authority each agree to give the other written notice of any taking as a result of, or in lieu of, condemnation or the exercise of the power of eminent domain by any sovereign, municipality or any other public or private authority ("Taking") of all or any part of the Phillies Ballpark Premises or any interest therein promptly after such party receives notice thereof.

### Total Taking of Phillies Ballpark Premises

If the whole of the Phillies Ballpark Premises or the leasehold estate created under the Prime Lease shall be acquired or condemned as a result of a Taking ("Total Taking"), then notwithstanding such Total Taking, the Prime Lease Term shall not terminate and the Prime Lease, including but not limited to all Rent and Additional Rent then accrued and accruing thereafter, shall continue in full force and effect until the expiration or earlier termination of the Prime Lease Term.

### Partial Taking

In the event of a Taking of a portion of the Phillies Ballpark Premises which is not a Total Taking as provided in Section 14.2 of the Prime Lease (a "Partial Taking"), then and in that event, the Prime Lease shall remain in full force and effect as to the portion of the Phillies Ballpark Premises remaining immediately after such Partial Taking. Any Partial Taking to the contrary notwithstanding, the Rent and Additional Rent accruing under the Prime Lease after a Partial Taking shall not be apportioned, prorated or otherwise abated.

### City Rent Obligation Continues

Notwithstanding any Total Taking or Partial Taking of the Phillies Ballpark Premises or the leasehold estate created under the Prime Lease, whether temporary or permanent, the City's obligation to pay Rent and Additional Rent under the Prime Lease shall not be suspended, abated, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever, and the City shall continue to pay Rent and Additional Rent under the Prime Lease as if no such Total Taking or Partial Taking had occurred.

### Award

In the event of any Taking, whether a Total Taking or Partial Taking, and whether temporary or permanent, the parties expressly agree that their rights to make claims against the condemning sovereign, municipality, or other authority, and against each other, shall be governed by the terms to be set forth in the Phillies Lease regarding condemnation and award. The foregoing to the contrary notwithstanding, in the event that any claims of the Phillies pursuant to the terms to be set forth in the Phillies Lease, and any claims of any fee or leasehold mortgagee have been satisfied, and provided that the City is not in default of the payment obligations under Section 4.1(a) of the Prime Lease, then any remaining condemnation award, or sums in lieu thereof relating to the Improvements, shall be

promptly paid to the City provided that sufficient proceeds are made available to the Authority to provide for a cleared and safe site.

## DEFAULTS AND REMEDIES

**Defaults**

Each of the following shall constitute an "Event of Default" by the City under the Prime Lease:

(a) Any failure by the City to pay Rent or any other amount, charge, fee or sum required to be paid by the City under the Prime Lease when due;

(b) Any Act of Bankruptcy by the City;

(c) Any failure by the City to observe or perform any of the terms, covenants, agreements, provisions, conditions or limitations contained in the Prime Lease.

**Remedies**

Upon the occurrence of an Event of Default by City and at any time thereafter, the Authority shall have, in addition to all other rights available to the Authority at law or in equity, the following rights and remedies:

(a) To institute any and all proceedings permitted by law or equity including, but not limited to, an action to enjoin a violation of the Prime Lease by the City or to compel specific performance of the Prime Lease by the City;

(b) To seek and obtain, and the City thereby consents to the entry of, a temporary restraining order, together with such other temporary, preliminary and permanent injunctive or other equitable relief, from any court of competent jurisdiction capable of issuing or granting such relief, to compel the City to comply with or refrain or cease from breaching or violating the terms, covenants and conditions of the Prime Lease, and, with respect thereto, the City thereby waives any requirement that the Authority post a bond or other security in connection with such injunctive or other equitable relief; and

(c) To require that the City immediately pay all of the Authority's costs, charges and expenses, including, without limitation, court and other costs, expert fees, receiver and trustee's fees, consultant fees, all costs and expenses in connection with litigation, service and attorneys' fees, incurred in enforcing the City's obligations and the Authority's rights and remedies under the Prime Lease or incurred by the Authority in any litigation, negotiation or transaction in which the City causes the Authority, without the Authority's fault, to become involved or concerned.

Any provision of the Prime Lease to the contrary notwithstanding, under no circumstances shall the Authority's remedies include the right to cause an acceleration of all or any part of the Rent or a termination of the Prime Lease.

**No Waiver**

No failure or delay by the Authority to insist upon the strict performance of any term, covenant, agreement, provision, condition or limitation of the Prime Lease or to exercise any right or remedy consequent upon a breach thereof, and no acceptance by the Authority of full or partial Rent or any other payment due under the Prime Lease during the continuance of any such breach (with or without knowledge of the breach), shall constitute or be construed to constitute a waiver of any such breach or of such term, covenant, agreement, provision, condition or limitation. No term, covenant, agreement, provision, condition or limitation of the Prime Lease to be kept, observed, or performed by City, and no breach thereof, shall be waived, altered or modified except by a written instrument executed by the Authority. Any waiver of any breach shall be limited to the breach so waived, and shall not affect or alter the Prime Lease; each and every term, covenant, agreement, provision, condition and limitation of the Prime Lease shall continue in full force and effect with respect to any other then existing or subsequent breach thereof.

**Authority's Rights Not Exclusive**

No right or remedy therein conferred upon or reserved to the Authority is intended to be exclusive of any other right or remedy therein or by law or in equity provided, but each shall be cumulative and in addition to every other right or remedy given therein or then or thereafter existing at law or in equity or by statute.

## AFFIRMATIVE ACTION AND COVENANTS AGAINST DISCRIMINATION

**Nondiscrimination**

In its performance of the Prime Lease, the Authority and the City shall not discriminate or permit discrimination against any Person because of race, color, religion, national origin, age, sexual preference, sexual orientation or sex. Any such discrimination shall constitute an Event of Default under the Prime Lease and the City or the Authority shall have the right to exercise any of its rights and remedies thereunder.

**Organization Membership**

In accordance with Chapter 17-400 of The Philadelphia Code, the Authority agrees that its payment or reimbursement of membership fees or other expenses associated with participation by its employees in an exclusionary private organization, insofar as participation confers an employment advantage or constitutes or results in discrimination with regard to hiring, or tenure of employment, including but not limited to promotions, terms, privileges or conditions of employment, or on the basis of race, color, sex, sexual orientation, religion, national origin or ancestry, constitutes a substantial breach of the Prime Lease entitling the City to all rights and remedies provided in the Prime Lease or otherwise available in law or equity, subject to the provisions of Section 4.5 of the Prime Lease.

The Authority agrees to include and require to be included the immediately preceding paragraph, with appropriate adjustment for the identity of the parties, in all contracts and subcontracts which are entered into for work to be performed on behalf of Authority pursuant to the Prime Lease, if any.

The Authority further agrees to cooperate with the Commission on Human Relations of the City (the "Commission") in any manner that the Commission deems reasonable and necessary for the Commission to carry out its responsibilities under Chapter 17-400 of The Philadelphia Code. Failure to so cooperate shall constitute a substantial breach of the Prime Lease entitling the City to all rights and remedies provided in the Prime Lease or otherwise available in law or equity.

**Nondiscrimination Clause**

During the term of the Prime Lease, the City agrees, as to itself and as to each occupant of the Phillies Ballpark Premises controlling, controlled by or under common control with the City (each, a "Contractor") to not take or allow certain actions and to take certain actions, all as more fully set forth in the Prime Lease.

## CERTAIN COVENANTS

**Payment of Authority Fees**

Notwithstanding anything to the contrary contained in the Transaction Documents, the City agrees to pay promptly when due to the Authority, or on the Authority's behalf, to the extent the same are not paid out of the proceeds of the Bonds issued by the Authority as contemplated by the Prime Lease, all fees, costs and expenses reasonably incurred by the Authority, including but not limited to reasonable attorneys' fees and expenses, whenever incurred, in connection with the negotiation, execution and delivery of any of the Transaction Documents, the administration of the Phillies Ballpark Premises and the Transaction Documents and the performance of any Authority duties or obligations under any of the Transaction Documents.

**Bonds and Certain Tax Matters**

The City agrees, in the event that Authority issues from time to time any Bonds in connection with the Phillies Ballpark Premises:

(a) to pay promptly on Authority's behalf reasonable compensation to the Trustee and the Credit Facility Provider for their services under the Indenture and the Credit Facility, respectively, relating to the Bonds and the Credit Facility, and said Trustee's and Credit Facility Provider's reasonable expenses and disbursements, including reasonable attorney fees and expenses, incurred in connection with issuance of the Bonds and the execution, delivery and performance of obligations under the Indenture and the Credit Facility, and, further, to satisfy any indemnification obligations of the Authority to the Trustee and the Credit Facility Provider against any liabilities either may incur in the exercise and performance of their respective powers and duties and rights and remedies under the Indenture or the Credit Facility, except (i) in the case of the Trustee, those liabilities caused by the Trustee's own negligence or willful misconduct, and (ii) in the case of the Credit Facility Provider, those liabilities caused by the Credit Facility Provider's own gross negligence or willful misconduct;

(b) to the extent that any Bonds are issued on a tax-exempt basis, to execute an appropriate tax certificate as to arbitrage and instructions as to compliance with provisions of Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code") (the "Federal Tax Certificate"), if and to the extent applicable, and to comply with all provisions of the Federal Tax Certificate applicable to it and take no action which would cause the interest on the Bonds to be includable in the gross income of Holders of the Bonds under the Code; and

(c) to the extent that any Bonds are issued on a tax-exempt basis, to perform and satisfy, through the City Treasurer, the record keeping obligations of the Authority under the Federal Tax Certificate and to perform all monitoring, oversight, calculations and reporting required of the Authority under the Federal Tax Certificate to make any and all elections permitted to be made by Authority pursuant to the Code, and to comply with all requirements relating to rebate and make any required rebate payments to the United States Treasury.

**Continuing Disclosure Obligations**

In connection with Authority's issuance of the Bonds, the Authority and the City, if required to do so, shall enter into a Continuing Disclosure Agreement or Agreements pursuant to which the Authority and City will be obligated to provide certain information and make certain filings pursuant to the requirements of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. The City assumes all responsibility for collecting the necessary information for dissemination and filing pursuant to such Continuing Disclosure Agreement or Agreements. The individual responsible for performing these duties is the City Treasurer.

**City Covenants**

The City covenants to perform its obligations under the Transaction Documents, including but not limited to the obligations imposed on the City pursuant to the Indenture, even though the City is not a party thereto, fully, faithfully and in a timely fashion. In connection with the issuance of any Bonds by the Authority, the City will provide to the Authority and the Trustee, written directions, instructions and certifications consistent in form and substance with those required to be given by the Authority to the Trustee under certain sections of the Indenture. The City covenants to do all of the actions which the Authority covenants under the terms of the Phillies Lease to cause or require the City to do, in each case, fully, faithfully and in a timely fashion.

**Staffing Assistance**

As requested by the Authority, the City will designate certain employees who will consult with the Authority regarding the Authority's performance under the Transaction Documents and, as requested by the Authority, perform any Authority responsibilities and prepare any documents required of the Authority under the Transaction Documents. In addition, the City expressly undertakes to perform the obligations of the Authority to provide to any Credit Facility Provider, any notices of default, and all financial and litigation information regarding the City, and information regarding the Phillies Ballpark Premises as may be required under, and otherwise to comply with the Authority's affirmative and negative covenants in any Credit Facility. The City Treasurer shall perform these duties.

**Rights Against the Phillies and Other Third Parties**

Provided the City is current in the performance of all of its obligations to the Authority under the Prime Lease, the City shall have the right, with the consent of the Authority, to pursue all remedies which the Authority may have against the Phillies or any third party under the Phillies Lease or against any party to any other Transaction Document or any third party thereunder.

**Litigation**

In the event of any litigation arising out of or relating to the Transaction Documents, the performance of the Authority's obligations thereunder, or by reason of the Authority's being a party thereto, including but not limited to claims by the Team, any contractor, architect or engineer (whether or not working on the Phillies Ballpark Premises, if the claim relates to the Phillies Ballpark Premises or the participation of the Authority or the City therein), the Trustee, Holders of the Bonds or any third party, the Authority shall, within four (4) business days of receipt, deliver all process served upon it directly to the City Solicitor. All such process will be directed to the attention of the City Solicitor. The City Solicitor will either enter its appearance on behalf of the Authority in a timely fashion or retain counsel which will enter its appearance on behalf of the Authority in a timely fashion. The City shall defend the Authority in all such actions at the City's sole cost and expense and the City shall have the right to control the defense of such proceeding but shall keep the Authority advised as to all material developments in such proceeding. All information with respect to litigation will be sent to the Authority to the attention of Philip M. Brandt, Esquire at Philadelphia Industrial Development Corporation ("PIDC"). The City Solicitor shall be permitted to arrange for defense of the Authority by any applicable insurer pursuant to any insurance policy maintained by any third patty under which the Authority is an additional named insured or loss payee.

**Indemnification**

To the extent (i) that a party to any Transaction Document fails to provide reasonable and timely indemnification against Claims or Losses (as defined below), (ii) permitted by Applicable Laws and subject to the section of the Prime Lease entitled "No Waiver of Immunity" and (iii) that Claims or Losses are not covered under an insurance policy maintained by a third patty for the benefit of the Authority pursuant to the terms of any Transaction Document, the City agrees to indemnify, defend and hold harmless the Authority and PIDC, and each of their directors, members, officials, officers, employees, agents and representatives (each an "Indemnified Party" and collectively, the "Indemnified Parties"), from and against any and all suits, claims or causes of action (collectively "Claims"), and all liabilities, losses, obligations, damages, penalties, costs, charges, expenses, judgments and amounts paid in settlement (including without limitation, reasonable attorneys' fees) of every kind (collectively "Losses"), which may be imposed upon, incurred by or asserted against any Indemnified Party arising out of or relating to or arising in connection with the Authority's entering into the Prime Lease or any of the Transaction Documents, the performance of any of the Authority's obligations thereunder, any acts or omissions with respect to the Authority's interest under the Prime Lease or any of the Transaction Documents, or any other acts or omissions relating to the Authority's involvement in the Phillies Ballpark Premises; except in each case to the extent that the Claims and Losses are attributable to the gross negligence or willful misconduct of any such Indemnified Party. In consideration of this undertaking by the City, the Authority thereby agrees to cooperate with the City to enforce the Authority's rights under any insurance policies maintained by any third party under which the Authority is an additional named insured or loss payee, and to enforce any indemnification rights to which the Authority may be entitled under any of the Transaction Documents (including but not limited to any rights against the Team), and the City and the Authority agree to pursue all such third party insurance policies and indemnitors diligently with respect to all Claims or Losses which may be properly asserted in good faith against them. The City shall be subrogated to the rights of the Authority under such insurance policies and indemnification rights; provided, however, it is expressly agreed that the City shall not have, and expressly waives, any right of subrogation under any insurance policies maintained by the Authority or PIDC. To the extent that either (i) any party to any Transaction Document, other than the City, provides reasonable and timely indemnification against any Claims or Losses, or (ii) Claims are covered by an insurer under an insurance policy maintained by a third patty for the benefit of the Authority without reservation of rights and Losses under such Claims are paid by such insurer on a basis such that the Authority does not incur any liability, then in each case, the City's obligations under Section 18.8 of the Prime Lease with respect to such specific Claims and Losses will be discharged. The City acknowledges that the Authority shall not be obligated to exhaust any remedies against any third party as a condition to its right to receive indemnification under the Prime Lease. This indemnification is intended to be in addition to any indemnification by the City in favor of the Authority provided elsewhere in the Transaction Documents.

To the extent (i) that any party to any Transaction Document other than the City or Authority fails to provide reasonable and timely indemnification against Claims or Losses under the Phillies Lease, (ii) permitted by Applicable Laws and subject to the applicable section in the Prime Lease, and (iii) that Claims or Losses are not covered under an insurance policy maintained by or for the benefit of the City, the Authority agreed to indemnify, defend and hold harmless the City and its officers, officials, employees and agents from and against any and all Losses which may be imposed upon, incurred by or asserted against the City and its officers, officials, employees and agents arising out of or relating to (i) the performance or breach of the obligations or representations of the Authority under the Prime Lease or any of the Transaction Documents, or (ii) any other acts or omissions of the Authority or any of its directors, members, officers, officials, employees, agents and attorneys providing services related to the Phillies Ballpark Premises, in each case insofar as such Claims or Losses arise directly or indirectly from the willful misconduct, fraud or gross negligence of the Authority or any Indemnified Party, as defined above. The liability of the Authority, PIDC and any other indemnified party under the Prime Lease is limited solely to the Authority's interest in the Phillies Ballpark Premises, and the lien of any judgment shall be restricted thereto.

The Authority's taking of any action, or the failure, to take any action, which it is permitted to take under the terms of the Prime Lease or any of the Transaction Documents shall under no circumstances be deemed to constitute willful misconduct, fraud or gross negligence, and furthermore, the taking of any action by the Authority, which action is directed in writing by the City, Trustee or Credit Facility Provider pursuant to the Transaction Documents shall not under any circumstances be deemed to constitute willful misconduct, fraud or gross negligence.

The parties agree that neither shall be obligated under Section 18.8 of the Prime Lease unless the Indemnifying party has been given prompt and timely notice of matters contemplated by Section 18.8 of the Prime Lease; provided, however, the failure to so notify the indemnifying party will not relieve the indemnifying party from any obligation under Section 18.8 of the Prime Lease except to the extent such failure has materially injured the ability of the indemnifying party to defend such matter successfully or to minimize the economic exposure resulting therefrom.

**No Waiver of Immunity**

Nothing herein shall be construed to waive or amend any defense or immunity which the City or the Authority, or their officials, members, officers, agents, employees or representatives may have under Title 42, Chapter 85 of the Pennsylvania Consolidated Statutes Annotated, as amended, or other Applicable Law. The parties expressly acknowledge that Section 18.9 of the Prime Lease is intended to preclude any third party from having any rights whatsoever under the Prime Lease against either party and is not intended in any way to constitute a defense against, or otherwise limit, the obligations of the City under the Prime Lease to pay the costs, expenses, Claims and Losses of the Authority as provided therein.

**Nondisturbance Agreement**

Concurrently with the execution and delivery of the Phillies Lease, at the request of the Phillies or its leasehold mortgagee, the City and the Authority shall enter into a non-disturbance agreement whereby the City and the Authority agree not to disturb the rights of the Phillies under the Phillies Lease in substantially the same form and upon substantially the same terms as are set forth in Exhibit E of the Prime Lease.

**Survival**

The rights and obligations of the parties under Article 18 of the Prime Lease shall survive termination of the Prime Lease and the defeasance of the Indenture.

## MISCELLANEOUS

**Quiet Enjoyment**

The City, upon paying the Rent and other charges provided for in the Prime Lease and upon observing and keeping all agreements, covenants and conditions of the Prime Lease on City's part to be kept, shall have and enjoy quiet possession of the Phillies Ballpark Premises without hindrance or molestation by or from the Authority, subject, however, to the exceptions, reservations, terms and conditions of the Prime Lease.

**No Third Party Rights**

Except as provided (i) in Article 18 of the Prime Lease as to Indemnified Parties, (ii) in Article 4 of the Prime Lease as to the Trustee and the Credit Facility Provider, (iii) in Section 19.15 of the Prime Lease as to the Trustee, the Credit Facility Provider and the Phillies, (iv) in Section 18.10 of the Prime Lease as to the Phillies and its leasehold mortgagee, and (v) in Section 18.2 of the Prime Lease as to the Trustee and the Credit Facility Provider, nothing in the Prime Lease shall be construed to constitute, create or confer rights, remedies or claims in or upon any Person not a party thereto (as third party beneficiary or otherwise), or to create obligations or responsibilities of the parties thereto to such Persons, or to permit any Person, other than the parties thereto and their respective successors and assigns, to rely upon the covenants, conditions and agreements contained therein.

**Survival**

Any and all agreements set forth in the Prime Lease which, by its or their nature, would reasonably be expected to be performed after the termination of the Prime Lease shall survive and be enforceable after such termination. Any and all liabilities, actual or contingent, which shall have arisen in connection with the Prime Lease, shall survive any termination of the Prime Lease. Any express statement of survival contained in any Section of the Prime Lease shall not be construed to affect the survival of any other Section of the Prime Lease.

**Expiration of Authority**

In the event that during the Prime Lease Term, the existence of the Authority is not renewed or extended pursuant to Applicable Law and a successor to the Authority is not established, all rights and obligations of the Authority under the Prime Lease shall automatically vest in the City without any further action by the parties hereto.

**Severability**

If any term or covenant of the Prime Lease or the application thereof to any Person or circumstances shall, to any extent, be held invalid or unenforceable, the remaining terms and covenants of the Prime Lease, or the application of such term or covenant to Persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and covenant of the Prime Lease shall be valid and enforceable to the fullest extent permitted by law.

**Effect of Drafting on Construction**

The fact that the Prime Lease document may have been initially drafted by the attorney for one of the parties hereto has no significance as to construction of ambiguous terms against either party, inasmuch as the Prime Lease is the product of arms-length negotiations between the parties, and no provision of the Prime Lease shall be construed against a party solely because that party or that party's counsel drafted such provision.

**Amendments**

The parties to the Prime Lease, from time to time may enter into any amendments thereto (which thereafter shall form a part thereof) without the consent of any other parties such as shall not adversely affect the rights of or the security of the Holders (as defined in the Indenture), only for the following purposes:

(a) To cure any ambiguity, defect or omission therein or in any amendment thereto or to supplement any provision thereof, provided such cure shall not materially adversely affect the Phillies, the Holders or the Credit Facility Provider; or

(b) To reflect a change in Applicable Law which shall not impair the security hereof or materially adversely affect the rights of the Holders, the Phillies or the Credit Facility Provider; or

(c) To provide for additional Rent thereunder to the extent necessary in connection with the issuance of additional debt; or

(d) To add to the covenants and agreements of the City therein contained, or to surrender any right or power therein reserved to or conferred upon the City which shall not impair the security hereof nor materially adversely affect the rights of the Phillies, the Holders or the Credit Facility Provider.

The Trustee, the Credit Facility Provider and the Phillies shall be provided notice of any amendments with respect to (a), (b), (c) and (d) of Section 19.15 of the Prime Lease. All other amendments must be approved by the Phillies, the Trustee (if the Trustee's approval is required in accordance with the Indenture) and the Credit Facility Provider (if the Credit Facility Provider's approval is required in accordance with the terms of the Credit Facility), and, if the Indenture must be amended with Holders' consent, the Holders, in the same manner and to the same extent as is set forth in the applicable Article of the Indenture.

Notwithstanding the foregoing, the Authority shall not amend the Prime Lease: (a) other than as provided in the Indenture; and (b) without the consent of Dexia Credit Local, acting through its New York Agency ("Dexia"); provided, however, that Dexia shall be deemed to have consented to any modification, amendment or supplement of, or waiver with respect to, the Prime Lease if (i) Dexia shall have failed to respond to a written request of the Authority for Dexia's consent thereto within ten (10) days after receipt by Dexia of such request, and (ii) such request shall have indicated thereon that Dexia shall be deemed to have consented thereto unless Dexia responds to such request within ten (10) days after receipt by Dexia of such request; and provided further, however, that Dexia's right to consent to amendments to the Prime Lease shall terminate upon (i) surrender of the Credit Facility issued by Dexia for cancellation, and (ii) payment in full by the Authority of all of its obligations to Dexia under that certain Letter of Credit and Reimbursement Agreement, dated as of April 1, 2001 between the Authority and Dexia.

**No Modification**

The Prime Lease is intended by the parties as a final expression of their agreement and as a complete and exclusive statement of the terms thereof, all negotiations, considerations and representations between the parties having been incorporated herein. No course of prior dealings between the parties or their officers, employees, agents or Affiliates shall be relevant or admissible to supplement, explain, or vary any of the terms of the Prime Lease. No prior agreement, course of dealing or custom between the parties or their Affiliates shall be relevant or admissible to determine the meaning of any of the terms of the Prime Lease. No representations, understandings, or agreements have been made or relied upon in the making of the Prime Lease other than those specifically set forth herein. The Prime Lease can be modified only by a writing signed by the party against whom the modification is enforceable subject to Section 19.15 of the Prime Lease.

**No Personal Liability**

Notwithstanding any provision or obligation to the contrary set forth in the Prime Lease, no provision of the Prime Lease or any related document shall be construed so as to give rise to a pecuniary liability of the Authority or any of its members, officers, agents or employees or to give rise to a charge upon the general credit of the Authority or such members, officers, agents or employees; any pecuniary liability under the Prime Lease of the Authority under any theory of law, including contract or tort, shall be limited exclusively to its interest in the Phillies Ballpark Premises and the lien of any judgment shall be restricted thereto.

No member, director, officer, official, employee or agent of any party to the Prime Lease shall be personally liable for any costs or obligations of such party. All Persons, corporations, or other entities extending credit to, contracting with or having any claim against any party, may look only to the funds or property of such party legally available for the purpose for payment of any such suit, contract or claim to the extent such party is liable therefor, or for the payment of any costs that may become due or payable to them from any party, respectively, and not from any member, director, officer, official, agent or employee of any party.

# APPENDIX E

## PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL

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_____, 2014

Re: $_____ aggregate principal amount, Philadelphia Authority for Industrial Development, Lease Revenue Refunding Bonds, 2014 Series B

To the Purchasers of the Within-Described Bonds:

We have served as co-bond counsel in connection with the issuance by the Philadelphia Authority for Industrial Development (the "Authority") of $_____, aggregate principal amount, Lease Revenue Refunding Bonds, 2014 Series B (the "2014B Bonds"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Indenture (hereinafter defined).

The 2014B Bonds are issued pursuant to the provisions of the Pennsylvania Economic Development Financing Law, Act No. 102 of the General Assembly of the Commonwealth of Pennsylvania, approved August 23, 1967 (P.L. 251), as amended (the "Act"), the Ordinances (Bill Nos. 000722-A and 000721-A) adopted by the City Council of Philadelphia, Pennsylvania and approved by the Mayor on December 28, 2000 (collectively, the "Ordinances"), a resolution adopted by the Authority on April 8, 2014 (the "Resolution"), and a Trust Indenture, dated as of April 1, 2001 (the "Original Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee"), as amended and supplemented by the First Supplemental Trust Indenture, dated as of December 1, 2001, between the Authority and the Trustee, the Second Supplemental Trust Indenture, dated as of June 30, 2004, between the Authority and the Trustee, the Fifth Supplemental Trust Indenture (the "Fifth Supplemental Indenture") dated as of May 1, 2011, between the Authority and the Trustee (which amended and restated in their entirety the Third Supplemental Trust Indenture, dated as of October 1, 2007, and the Fourth Supplemental Trust Indenture, dated as of May 1, 2008), the Sixth Supplemental Trust Indenture, dated as of May 1, 2014, between the Authority and the Trustee (the "Sixth Supplemental Indenture") and the Seventh Supplemental Trust Indenture, dated as of July 1, 2014, between the Authority and the Trustee (the "Seventh Supplemental Indenture"). The Original Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture and the Seventh Supplemental Indenture are hereinafter collectively referred to as the "Indenture."

The 2014B Bonds are being issued for the purpose of providing funds which will be used for: (i) the current refunding of the Authority's $55,395,000, outstanding aggregate principal amount, 2007 Series B-4 Bonds, (ii) the payment of certain costs of terminating the 2007B-4 Swaps and (iii) the costs of issuing the 2014B Bonds.

As the basis for this opinion, we have examined such matters of law and such documents, certifications, instruments and records as we deemed necessary to enable us to render the opinion set forth below, including the Act, applicable provisions of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder or made applicable with respect thereto (the "Code"), and original counterparts or certified copies of the Ordinances, the Resolution, the Indenture, the Security Leases, an approval by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, the tax compliance agreement between the Authority and the City of Philadelphia, Pennsylvania (the "City") as to certain matters under the Code (the "Tax Compliance Agreement"), and the other documents, certifications, opinions, instruments and records listed in the Index of Closing Documents in respect of the 2014B Bonds filed this date with the Trustee. We have also examined fully executed and authenticated 2014B Bonds or true copies thereof. In rendering this opinion, we have relied on the opinions of counsel to the Authority and the City Solicitor of even date herewith as to all matters of fact and law set forth therein, and on the genuineness, truthfulness and completeness of all documentation examined as referred to above and of all signatures thereon.

Except with respect to Paragraph 5 below, our opinion is given only with respect to the internal laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that:

1. The Authority is a public instrumentality of the Commonwealth of Pennsylvania and a body corporate and politic, organized and existing under the laws of the Commonwealth of Pennsylvania, and at all relevant times had and has full power and authority thereunder to adopt the Resolution, to execute the Seventh Supplemental Indenture, to perform its obligations under the Indenture, and to issue the 2014B Bonds.

2. The Seventh Supplemental Indenture has been duly authorized, executed and delivered by the Authority, and the obligations of the Authority under the Indenture and the Security Leases are valid, binding and enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights ("Creditors' Rights Limitations").

3. The 2014B Bonds have been duly authorized, executed and issued by the Authority, and are valid and binding, limited obligations of the Authority, payable solely from the sources described in the Indenture, and enforceable in accordance with their terms, except as enforcement may be affected by Creditors' Rights Limitations. The 2014B Bonds are entitled to the benefit and security of the Indenture to the extent provided therein.

4. Under the laws of the Commonwealth of Pennsylvania, as presently enacted and construed, interest on the 2014B Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the 2014B Bonds are exempt from personal property taxes in Pennsylvania. However, under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, any profits, gains or income derived from the sale, exchange or other disposition of the 2014B Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth of Pennsylvania.

5. Under existing statutes, regulations, rulings and court decisions, interest on the 2014B Bonds will not be includible in the gross income of the holders thereof for federal income tax purpose. Interest on the 2014B Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax ("AMT"); however, interest on the 2014B Bonds held by certain corporations is included in the computation of "adjusted current earnings," a portion of which is taken into account in determining the AMT imposed on such corporations.

In rendering our opinion, we have assumed compliance by the Authority with the covenants contained in the Indenture and the Authority and the City with their respective covenants and representations contained in the Tax Compliance Agreement that are intended to comply with the provisions of the Code relating to actions to be taken by the Authority in respect of the 2014B Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion from gross income for federal income tax purposes of the interest on the 2014B Bonds. These covenants relate to, *inter alia*, the use of and investment of proceeds of the 2014B Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in the interest on the 2014B Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the 2014B Bonds.

Attention is called to the fact that the 2014B Bonds are limited obligations of the Authority, payable solely from the sources specified in the Indenture. Neither the faith and credit nor taxing power of the City of Philadelphia, Commonwealth of Pennsylvania or of any other political subdivision thereof, is pledged to the payment of the principal of or interest on, the 2014B Bonds. The Authority has no taxing power.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law which may hereafter occur or changes in facts or circumstances which may hereafter come to our attention. We express no opinion herein with respect to and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or final Official Statement prepared in respect of the 2014B Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

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# APPENDIX F

# FORM OF CONTINUING DISCLOSURE AGREEMENT

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**CONTINUING DISCLOSURE AGREEMENT**

**PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT**

**LEASE REVENUE REFUNDING BONDS, 2014 SERIES B**

This Continuing Disclosure Agreement ("Disclosure Agreement") dated as of July __ , 2014, is executed and delivered by and between The City of Philadelphia, Pennsylvania ("City'') and Digital Assurance Certification, L.L.C., as dissemination agent ("Dissemination Agent") in connection with the issuance and sale by the Philadelphia Authority for Industrial Development (the "Authority") of $_____ aggregate principal amount of its Lease Revenue Refunding Bonds, 2014 Series B (the "2014B Bonds").

The 2014B Bonds are being issue pursuant to (i) the provisions of the Pennsylvania Economic Development Financing Law, Act No. 102 of the General Assembly of the Commonwealth of Pennsylvania approved August 23, 1967 (P.L. 251), as amended, and as it may be amended or supplemented from time to time (the "Act"), (ii) a resolution of the Authority adopted on April 8, 2014, and (iii) the Indenture (defined below).

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

**Section 1: <u>Definitions</u>**

In this Disclosure Agreement and any agreement supplemental hereto (except as otherwise expressly provided for unless the context clearly otherwise requires) terms defined in the recitals hereto shall have such meanings throughout this Disclosure Agreement, and, in addition, the following terms shall have the meanings specified below:

"Annual Financial Information" shall mean the financial information or operating data with respect to the City, substantially similar to the type set forth in Appendix A attached hereto and made a part hereof, delivered at least annually pursuant to Section 3 hereof and in accordance with the Rule (as hereafter defined). The financial statements comprising the Annual Financial Information are prepared according to accounting methods and procedures which conform to generally accepted accounting principles for governmental units as prescribed by the Government Accounting Standards Board.

"Business Day" or "Business Days" shall mean any day other than a Saturday or Sunday or, in the City, a legal holiday or a day on which banking institutions are authorized by law to close or a day on which the Dissemination Agent is closed.

"Disclosure Representative" shall mean the Director of Finance of the City, the City Treasurer or such other official or employee of the City as the Director of Finance or the City Treasurer shall designate in writing to the Dissemination Agent.

"EMMA" shall mean the Electronic Municipal Market Access System operated by the MSRB.

"Indenture" shall mean the Trust Indenture dated as of April 1, 2001, as amended and supplemented by seven supplemental indentures, including the Seventh Supplemental Trust Indenture

dated as of July 1, 2014 (the "Seventh Supplemental Indenture") between the Authority and the Trustee, as it may be further amended and supplemented from time to time.

"Material Event" shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement dated July __, 2014, relating to the 2014B Bonds.

"Participating Underwriters" shall mean any of the original underwriters of the 2014B Bonds required to comply with the Rule in connection with their purchase and reoffering of the 2014B Bonds.

"Registered Owner" or "Registered Owners" shall mean the person or persons in whose name a 2014B Bond is registered on the books of the Authority maintained by the Trustee in accordance with the Indenture. For so long as the 2014B Bonds shall be registered in the name of the Securities Depository or its nominee, the term "Registered Owner" or "Registered Owners" shall also mean and include, for the purposes of this Disclosure Agreement, the owners of book-entry credits in the 2014B Bonds evidencing an interest in the 2014B Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book-entry credits in the 2014B Bonds except those who have filed their names and addresses with the Dissemination Agent for the purposes of receiving notices or giving direction under this Disclosure Agreement.

"Rule" shall mean Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such Rule may be amended from time to time.

"Securities Depository" shall mean The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or successor thereto appointed pursuant to the Indenture.

"Trustee" shall mean The Bank of New York Mellon Trust Company, N.A., and any successor trustee under the Indenture.

All words and terms used in this Disclosure Agreement and not defined above or elsewhere herein shall have the same meanings as set forth in the Indenture.

**Section 2: <u>Authorization and Purpose of Disclosure Agreement</u>**

This Disclosure Agreement is authorized to be executed and delivered by the City in order to assist the Participating Underwriters in complying with the requirements of the Rule.

**Section 3: <u>Annual Financial Information</u>**

a) Within 240 days of the close of each fiscal year of the City, commencing with the fiscal year ending June 30, 2014, the Disclosure Representative shall file with the Dissemination Agent, Annual Financial Information for such fiscal year. The Dissemination Agent shall promptly upon receipt thereof file the Annual Financial Information with the MSRB. The Annual Financial Information will contain unaudited financial statements if audited financial statements are not available.

b) If unaudited financial statements are delivered pursuant to Section 3(a) above, as soon as audited financial statements for the City are available, the Disclosure Representative shall file the audited

financial statements with the Dissemination Agent. The Dissemination Agent shall promptly upon receipt thereof file the audited financial statements with the MSRB.

**Section 4: <u>Material Events</u>**

a) The City agrees that it shall provide through the Dissemination Agent, in a timely manner not in excess of ten (10) business days after the occurrence of the event, to the MSRB, notice of any of the following events with respect to the 2014B Bonds (each a "Material Event"):

(i) Principal and interest payment delinquencies;

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

(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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701–TEB) or other material notices or determinations with respect to the tax status of the 2014B Bonds, or other material events affecting the tax status of the 2014B Bonds;

(vii) Modifications to the rights of holders of the 2014B Bonds, if material;

(viii) Calls of the 2014B Bonds, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution or sale of property securing repayment of the 2014B Bonds, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the City;

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

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The foregoing fourteen (14) events are quoted from the Rule.

b) Whenever the City concludes that a Material Event has occurred, the Disclosure Representative shall promptly notify the Dissemination Agent in writing of such occurrence, specifying the Material Event. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence

with the MSRB. Upon receipt, the Dissemination Agent shall promptly file such notice with the MSRB. In addition, the Dissemination Agent shall promptly file with the MSRB, notice of any failure by the City or the Dissemination Agent to timely file the Annual Financial Information as provided in Section 3 hereof, including any failure by the City or the Dissemination Agent to provide the Annual Financial Information on or before the date specified in Section 3(a) hereof.

c) Notwithstanding the foregoing, the Dissemination Agent shall, promptly after obtaining actual knowledge of an event listed in clauses (a)(i), (iv), (viii), (ix) notify the Disclosure Representative of the occurrence of such event and shall, within five (5) Business Days of giving notice to the Disclosure Representative, file notice of such occurrence with the MSRB, unless the Disclosure Representative gives the Dissemination Agent written instructions not to file such notice because the event has not occurred or the event is not a Material Event within the meaning of the Rule.

d) The Dissemination Agent shall prepare an affidavit of filing for each notice delivered pursuant to clauses (b) and (c) of this Section 4 and shall deliver such affidavit to the City no later than three (3) Business Days following the date of delivery of such notice.

e) Upon the return of any completed acknowledgment of a filing, the Dissemination Agent shall prepare an affidavit of receipt specifying the date and hour of receipt of such notice by each recipient to the extent such information has been provided to the Dissemination Agent. Such affidavit of receipt shall be delivered to the City no later than three (3) Business Days following the date of receipt by the Dissemination Agent of the last completed acknowledgment.

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

**Section 5: <u>Amendment; Waiver</u>**

a) Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend the Disclosure Agreement or waive any of the provisions hereof, provided that no such amendment or waiver shall be executed by the parties hereto or effective unless:

(i) the amendment or waiver is made in writing and in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in identity, nature or status of the City or the governmental operations conducted by the City;

(ii) the Disclosure Agreement, as amended by the amendment or waiver, would have been the written undertaking contemplated by the Rule at the time of original issuance of the 2014B Bonds after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the Registered Owner of the 2014B Bonds.

b) Evidence of compliance with the conditions set forth in clause (a) of this Section 5 shall be satisfied by the delivery to the Dissemination Agent of an opinion of counsel having recognized experience and skill in the issuance of municipal securities and federal securities law, acceptable to both the City and the Dissemination Agent, to the effect that the amendment or waiver satisfies the conditions set forth in clauses (a)(i), (ii), and (iii) of this Section 5.

c) Notice of any amendment or waiver containing an explanation of the reasons therefor shall be given by the Disclosure Representative to the Dissemination Agent upon execution of the amendment or waiver and the Dissemination Agent shall promptly file such notice with the MSRB. The Dissemination Agent shall also send notice of the amendment or waiver to each Registered Owner including owners of book-entry credits in the 2014B Bonds who have filed their names and addresses with the Dissemination Agent.

**Section 6: <u>Other Information; Duties of Dissemination Agent</u>**

a) Nothing in this Disclosure Agreement shall preclude the City from disseminating any other information with respect to the City or the 2014B Bonds, using the means of communication provided in this Disclosure Agreement or otherwise, in addition to the Annual Financial Information and the notices of Material Events specifically provided for herein, nor shall the City be relieved of complying with any applicable law relating to the availability and inspection of public records. Any election by the City to furnish any information not specifically provided for herein in any notice given pursuant to this Disclosure Agreement or by the means of communication provided for herein shall not be deemed to be an additional contractual undertaking and the City shall have no obligation to furnish such information in any subsequent notice or by the same means of communication.

b) Nothing in this Disclosure Agreement shall relieve the Dissemination Agent of any of its duties and obligations under any other agreement or in any other capacity.

c) Except as expressly set forth in this Disclosure Agreement, the Dissemination Agent shall have no responsibility for any continuing disclosure to the Registered Owners or the MSRB.

**Section 7: <u>Default</u>**

a) In the event that the City or the Dissemination Agent fails to comply with any provision of this Disclosure Agreement, the Dissemination Agent or any Registered Owner of the 2014B Bonds shall have the right, by mandamus, suit, action or proceeding at law or in equity, to compel the City or the Dissemination Agent to perform each and every term, provision and covenant contained in this Disclosure Agreement. The Dissemination Agent shall be under no obligation to take any action in respect of any default hereunder unless it has received the direction in writing to do so by the Registered Owners of at least 25% of the outstanding principal amount of the 2014B Bonds and if, in the Dissemination Agent's opinion, such action may tend to involve expense or liability, unless it is also furnished with indemnity and security for expenses satisfactory to it.

b) A default under the Disclosure Agreement shall not be or be deemed to be a default under the 2014B Bonds, the Indenture, the Security Leases (as defined in the Indenture) or any other agreement related thereto and the sole remedy in the event of a failure of the City or the Dissemination Agent to comply with the provisions hereof shall be the action to compel performance described in Section 7(a) above.

**Section 8:** **Concerning the Dissemination Agent**

a) The Dissemination Agent accepts and agrees to perform the duties imposed on it by this Disclosure Agreement, but only upon the terms and conditions set forth herein. The Dissemination Agent shall have only such duties in its capacity as are specifically set forth in this Disclosure Agreement. The Dissemination Agent may execute any powers hereunder and perform any duties required of it through attorneys, agents, and other experts, officers, or employees, selected by it and the written advice of such counsel or other experts shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon. The Dissemination Agent shall not be answerable for the default or misconduct of any attorney, agent, expert or employee selected by it with reasonable care. The Dissemination Agent shall not be answerable for the exercise of any discretion or power under this Disclosure Agreement or liable to the City or any other person for actions taken hereunder, except for its own willful misconduct or negligence.

b) The City shall pay the Dissemination Agent reasonable compensation for its services hereunder, and also all of its reasonable expenses and disbursements, including reasonable fees and expenses of its counsel or other experts, as shall be agreed upon by the Dissemination Agent and the City. Nothing in this Section 8(b) shall be deemed to constitute a waiver of governmental immunity by the City. The provisions of this paragraph shall survive termination of this Disclosure Agreement

c) The Dissemination Agent may act on any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper persons or to have been prepared and furnished pursuant to any of the provisions of this Disclosure Agreement; and the Dissemination Agent shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement in the absence of actual notice to the contrary. The Dissemination Agent shall be under no obligation to institute any suit, or to take any action under this Disclosure Agreement, or to enter any appearance or in any way defend in any suit in which it may be made a defendant, or to take any steps in the execution of the duties hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified by the Registered Owners to its satisfaction against any and all costs and expenses, outlays and counsel fees and expenses and other reasonable disbursements, and against all liability; the Dissemination Agent may, nevertheless, begin suit or appear in and defend suit, or do anything else in its judgment proper to be done by it as Dissemination Agent, without indemnity.

**Section 9:** **Term of Disclosure Agreement**

This Disclosure Agreement shall terminate (1) upon payment or provision for payment in full of the 2014B Bonds, or (2) upon repeal or rescission of Section (b)(5) of the Rule, or (3) upon a final determination that Section (b)(5) of the Rule is invalid or unenforceable.

**Section 10:** **Beneficiaries**

This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent and the Registered Owners from time to time of the 2014B Bonds and nothing herein contained shall confer any right upon any other person.

**Section 11:** **Notices**

Any written notice to or demand may be served, presented or made to the persons named below and shall be sufficiently given or filed for all purposes of this Disclosure Agreement if deposited in the

United States mail, first class postage prepaid, or in a recognized form of overnight mail, or by telecopy with confirmation of receipt, addressed:

(a) to the Dissemination Agent at:

Digital Assurance Certification LLC
390 North Orange Avenue, Suite 1750
Orlando, FL 32801
Attention: _____
Fax: (407) 515-6513

(b) to the City or the Disclosure Representative at:

City of Philadelphia
Office of the Director of Finance
1330 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102
Attention: Director of Finance
Fax: (215) 568-1947; or

Office of the City Treasurer
640 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102
Attention: City Treasurer
Fax: (215) 686-3815

(c) to the Trustee at:

The Bank of New York Mellon Trust Company, N.A.
1735 Market Street
6th Floor, AIM No. 193-0650
Philadelphia, PA 19103
Attention: Global Corporate Trust – Public Finance

or such other addresses as may be designated in writing to all parties hereto.

**Section 12: <u>No Personal Recourse</u>**

No personal recourse shall be had for any claim based on this Disclosure Agreement against any member, officer, or employee, past, present or future, of the City (including without limitation the Disclosure Representative), or of any successor body as such, either directly or through the City or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty otherwise.

**Section 13: <u>Controlling Law</u>**

This Disclosure Agreement and all matters arising out of or related to this Disclosure Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

**Section 14:** **Removal and Resignation of Dissemination Agent**

a) The City may discharge the Dissemination Agent by notice in writing mailed postage prepaid to the Dissemination Agent; provided, however, that the City shall provide written notice to the Trustee upon the engagement or discharge of any Dissemination Agent, and shall provide the name, address and telephone number of any successor Dissemination Agent. The City shall cause any successor Dissemination Agent appointed hereunder and any further successors to execute and deliver an acknowledgement of acceptance of the designation and duties of Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

b) The Dissemination Agent may resign and thereby become discharged from its duties as such under this Disclosure Agreement by notice in writing mailed postage prepaid to the City, such resignation to become effective on the later of (i) the tenth (l0th) business day following the City's receipt or notice thereof (or at such different date and time as stated in such notice) and (ii) the City's appointment of a new Dissemination Agent hereunder or the City's notice to the Dissemination Agent and the Trustee that the City has determined to act itself in such capacity.

**Section 15:** **Filing with EMMA; Other Filings**.

All filings with the MSRB shall be done through EMMA in an electronic format prescribed by the MSRB and accompanied by identifying data prescribed by the MSRB, or as otherwise specified by the MSRB.

In addition to filings through EMMA, the Dissemination Agent may file any of the information necessary to be filed hereunder with such other electronic filing systems and entities as are approved by the Securities and Exchange Commission (the "SEC") by interpretative letter or "no action" letter for receipt of such information in compliance with the requirements of paragraph (b)(5) of the Rule.

**Section 16**: **Successors and Assigns.**

All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the City or by or on behalf of the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

**Section 17:** **Headings for Convenience Only**

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

**Section 18:** **Counterparts**

This Disclosure Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

**Section 19:** **Entire Agreement**

This Disclosure Agreement sets forth the entire understanding and agreement of the City and the Dissemination Agent with respect to the matters herein contemplated and no modification or amendment of or supplement to this Disclosure Agreement shall be valid or effective unless the same is in writing and signed by the parties hereto.

**Section 20:** **Severability**

In case any section or provision of this Disclosure Agreement or any covenant, stipulation, obligation, agreement, or action, or any part thereof, made, assumed, entered into or taken under this Disclosure Agreement, or any application thereof, is for any reason held to be illegal or invalid or is at any time inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision of this Disclosure Agreement, or any other covenant, stipulation, obligation, agreement, act or action, or part thereof, made, assumed, entered into or taken under this Disclosure Agreement, which shall be construed and enforced as if such illegal or invalid or inoperable portion were not contained herein.

[The remainder of this page is left blank intentionally.]

IN WITNESS WHEREOF, THE CITY OF PHILADELPHIA, PENNSYLVANIA, has caused this Disclosure Agreement to be executed by the Director of Finance and DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent, has caused this Disclosure Agreement to be executed by one of its authorized officers, all as of the day and year first above written.

CITY OF PHILADELPHIA, PENNSYLVANIA

By:_____
Name: Rob Dubow
Title: Director of Finance

DIGITAL ASSURANCE CERTIFICATION,
L.L.C., as Dissemination Agent

By:_____
Name:
Title:

## APPENDIX A

1. Commencing with the fiscal year ending June 30, 2014, a copy of the Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, prepared by the office of the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units; and

2. Commencing with the fiscal year ending June 30, 2014, to the extent such information is not contained in the CAFR, an update of the information in Appendix A of the Official Statement under the captions "DISCUSSION OF FINANCIAL OPERATIONS," "SUMMARY FINANCIAL INFORMATION," "REVENUES OF THE CITY," "EXPENDITURES OF THE CITY," "DEBT OF THE CITY," "OTHER FINANCING RELATED MATTERS—Swap Information" and "OTHER FINANCING RELATED MATTERS—Letter of Credit Agreements."

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