**NEW ISSUE - BOOK ENTRY ONLY**

**RATINGS:**
**See "RATINGS" herein.**

*In the opinion of Co-Bond Counsel, interest on the 2017 Bonds will be excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions, subject to the conditions described in "TAX MATTERS" herein. In addition, interest on the 2017 Bonds will not be treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of the individual and corporate alternative minimum taxes; however, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the 2017 Bonds. Under the existing laws of the Commonwealth of Pennsylvania, interest on the 2017 Bonds will be free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2017 Bonds or the interest thereon. For a more complete discussion, see "TAX MATTERS" herein.*

# $52,910,000
# PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT
## City Service Agreement Revenue Bonds
## (City of Philadelphia Affordable Housing Preservation Programs Project),
## Series 2017

**Dated: Date of Delivery** **Due: December 1, as shown on inside cover page**

**Defined Terms.** All capitalized terms that are not otherwise defined on this cover page have the meanings provided to such terms in this Official Statement.

**The 2017 Bonds.** The Philadelphia Authority for Industrial Development (the "Authority") is issuing the above-referenced bonds (the "2017 Bonds") pursuant to (i) the Act, (ii) a resolution of the Authority adopted June 6, 2017, (iii) the Indenture, and (iv) the Ordinance.

**Purpose.** The 2017 Bonds are being issued to (i) finance certain costs of the City's affordable housing preservation programs, as further described in the Ordinance, and (ii) pay the costs of issuing the 2017 Bonds and the costs of credit enhancement. See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS" herein.

**Security.** The following is qualified in all respects by the information in this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS" and the documents referenced under such caption. The 2017 Bonds are payable by the Authority solely from certain payments to be made by:

**THE CITY OF PHILADELPHIA**

(the "City"), as further described below and herein.

The 2017 Bonds are payable by the Authority solely from certain service fee payments (the "Service Fee") to be paid by the City under the Service Agreement dated as of August 1, 2017 (the "Service Agreement"), between the Authority and the City, and certain funds held by the Trustee under the Indenture.

General. The Service Fee payable under the Service Agreement is sized to be sufficient to pay, among other things, the principal of and interest on the 2017 Bonds when due. The Service Fee is payable solely from the current revenues of the City and is subject to annual appropriation by the City; City Council is required by the City Charter to appropriate to pay the Service Fee in each Fiscal Year. The City has covenanted in the Service Agreement and the Ordinance to include in its annual operating budget and appropriate in each Fiscal Year amounts sufficient to pay all Service Fee payments in such Fiscal Year when due. The obligation of the City to pay the Service Fee pursuant to the Service Agreement is unconditional and absolute.

**Insurance for Certain 2017 Bonds.** The scheduled payment of principal of and interest on the 2017 Bonds maturing on December 1, 2024 through December 1, 2027, inclusive, and December 1, 2029 through December 1, 2032, inclusive (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP.

**Limited Obligations. The 2017 Bonds are special limited obligations of the Authority, payable solely and exclusively from the revenues pledged therefor, including certain payments required to be made by the City under the Service Agreement and from certain other funds held by the Trustee under the Indenture. The 2017 Bonds or interest thereon shall not be in any way a debt or liability of the City, the Commonwealth of Pennsylvania (the "Commonwealth") or any political subdivision or agency thereof and shall not create or constitute an indebtedness, liability or obligation of the City, the Commonwealth or any political subdivision or agency thereof, either legal, moral or otherwise. Neither the general credit of the Authority nor the credit or taxing power of the City, the Commonwealth or any political subdivision or agency thereof is pledged to the payment of the principal of or interest on the 2017 Bonds. The Authority has no taxing power. The 2017 Bonds are not secured by the General Fund of the City.**

**Redemption.** The 2017 Bonds are subject to redemption prior to maturity, as described herein. See "THE 2017 BONDS – Redemption Provisions" herein.

**Additional Obligations.** The Authority has reserved the right to issue additional bonds secured on a parity basis with the 2017 Bonds and certain other obligations secured on a parity or subordinate basis with the 2017 Bonds under the circumstances and upon satisfaction of certain conditions described in the Ordinance and Indenture, as further described herein. See "THE 2017 BONDS – Additional Obligations" herein.

**Interest Payment Dates.** Interest on the 2017 Bonds is payable semiannually on each June 1 and December 1, commencing on December 1, 2017.

**Tax Status.** For information on the tax status of the 2017 Bonds, see the italicized language at the top of this cover page and "TAX MATTERS" herein.

**Delivery Date.** It is expected that the 2017 Bonds will be available for delivery to DTC on or about August 17, 2017.

**This cover page contains certain information for quick reference only. It is not a summary of the 2017 Bonds or this Official Statement. Investors must read the entire Official Statement, including the Appendices, which are an integral part hereof, to obtain information essential to the making of an informed investment decision regarding the 2017 Bonds.**

*The 2017 Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters and subject to the approval of the legality of the issuance of the 2017 Bonds by Cozen O'Connor and Ahmad Zaffarese LLC, Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the Authority by Philip Brandt, Esq., Authority Counsel, Philadelphia, Pennsylvania, and for the Underwriters by their counsel, Eckert Seamans Cherin & Mellott, LLC, Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the City of Philadelphia Law Department. Hawkins Delafield & Wood LLP and Law Office of Ann C. Lebowitz, Philadelphia, Pennsylvania, as Co-Disclosure Counsel to the City, will each deliver an opinion to the City and the Underwriters regarding certain matters.*

**PNC Capital Markets LLC** **Ramirez & Co., Inc.**
**TD Securities** **US Bancorp** **The Williams Capital Group, L.P.**

Dated: August 3, 2017

**PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES, YIELDS AND CUSIPS[1†]**

**$52,910,000**
**City Service Agreement Revenue Bonds**
**(City of Philadelphia Affordable Housing Preservation Programs Project),**
**Series 2017**

**Serial Bonds**

| Maturity (December 1) | Principal Amount | Interest Rate | Price | Yield | CUSIP† |
|---|---|---|---|---|---|
| 2018 | $1,760,000 | 3.000% | 102.423 | 1.100% | 71783DAH8 |
| 2019 | 1,825,000 | 4.000 | 106.161 | 1.260 | 71783DAJ4 |
| 2020 | 1,895,000 | 4.000 | 108.159 | 1.450 | 71783DAK1 |
| 2021 | 1,985,000 | 5.000 | 113.947 | 1.620 | 71783DAL9 |
| 2022 | 2,085,000 | 5.000 | 116.127 | 1.790 | 71783DAM7 |
| 2023 | 2,195,000 | 5.000 | 117.707 | 1.990 | 71783DAN5 |
| 2033 | 3,440,000 | 5.000 | 113.937* | 3.320* | 71783DAX3 |
| 2034 | 3,615,000 | 5.000 | 113.490* | 3.370* | 71783DAY1 |
| 2035 | 3,800,000 | 5.000 | 113.222* | 3.400* | 71783DAZ8 |

**Insured Serial Bonds**

| Maturity (December 1) | Principal Amount | Interest Rate | Price | Yield | CUSIP† |
|---|---|---|---|---|---|
| 2024 | $2,305,000 | 5.000% | 119.651 | 2.080% | 71783DAP0 |
| 2025 | 2,425,000 | 5.000 | 120.518 | 2.270 | 71783DAQ8 |
| 2026 | 2,550,000 | 5.000 | 120.973 | 2.460 | 71783DAR6 |
| 2027 | 2,680,000 | 5.000 | 120.332* | 2.630* | 71783DAS4 |
| 2029 | 2,815,000 | 5.000 | 117.967* | 2.880* | 71783DAT2 |
| 2030 | 2,960,000 | 5.000 | 116.759* | 3.010* | 71783DAU9 |
| 2031 | 3,110,000 | 5.000 | 116.206* | 3.070* | 71783DAV7 |
| 2032 | 3,270,000 | 5.000 | 115.566* | 3.140* | 71783DAW5 |

**Term Bond**

| Maturity (December 1) | Principal Amount | Interest Rate | Price | Yield | CUSIP† |
|---|---|---|---|---|---|
| 2037 | $8,195,000 | 5.000% | 113.133* | 3.410%* | 71783DBA2 |

* Price and yield calculated to the first optional call date of June 1, 2027 at par.

† CUSIP is a registered trademark of the American Bankers Association (the "ABA"). CUSIP data is provided by CUSIP Global Services, which is managed on behalf of the ABA by S&P Global Market Intelligence, a part of S&P Global Inc. The CUSIP numbers listed above are being provided solely for the convenience of the holders of 2017 Bonds only at the time of issuance of the 2017 Bonds and the City, the Authority, the Trustee, and the Underwriters do not make any representation with respect to such CUSIP numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after the issuance of the 2017 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the 2017 Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that may be applicable to all or a portion of the 2017 Bonds.

**THE CITY OF PHILADELPHIA, PENNSYLVANIA**

**MAYOR**
**HONORABLE JAMES F. KENNEY**

**MAYOR'S CHIEF OF STAFF**
**Jane Slusser**

**MAYOR'S CABINET**

| | |
|---|---|
| Michael DiBerardinis | Managing Director |
| Rob Dubow | Director of Finance |
| Sozi Pedro Tulante, Esq. | City Solicitor |
| Nina Ahmad | Deputy Mayor for Public Engagement |
| Nolan Atkinson | Chief Diversity & Inclusion Officer |
| James Engler | Deputy Mayor for Policy & Legislation |
| Harold Epps. | Commerce Director |
| Anne Fadullon | Director of Planning & Development |
| Otis Hackney | Chief Education Officer |
| Sheila Hess | City Representative |
| Ellen Kaplan | Chief Integrity Officer |
| Amy Kurland | Inspector General |
| Richard Lazer | Deputy Mayor for Labor Relations |
| Deborah Mahler | Deputy Mayor for Intergovernmental Affairs |
| Christine Derenick-Lopez | Chief Administrative Officer |

**CITY TREASURER**
Rasheia Johnson

**CITY CONTROLLER**
Alan L. Butkovitz

**No Offering May Be Made Except by this Official Statement.** No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriters to give any information or to make representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the City or the Underwriters. The offering of the 2017 Bonds is made only by means of this entire Official Statement.

**No Unlawful Offers or Solicitations.** This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2017 Bonds by any person, in any jurisdiction in which such sale would be unlawful.

**Use of this Official Statement.** This Official Statement is submitted in connection with the sale of the 2017 Bonds described in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement among the Authority, the City, the Underwriters and the purchasers or owners of any offered 2017 Bonds. This Official Statement is being provided to prospective purchasers either in bound printed form ("Original Bound Format") or in electronic format on the following website: www.munios.com. This Official Statement may be relied upon only if it is in its Original Bound Format or if it is printed in full directly from such website.

**Preparation of this Official Statement.** The information set forth herein has been furnished by the Authority and the City and includes information obtained from other sources, all of which are believed to be reliable. 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. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party. 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.

**Order and Placement of Materials.** The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the cover page, the inside cover page and the Appendices, must be considered in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provisions or sections of this Official Statement.

**Estimates and Forecasts.** The statements contained in this Official Statement and the Appendices hereto that are not purely historical are forward-looking statements. Such forward-looking statements can be identified, in some cases, by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "illustrate," "example," and "continue," or the singular, plural, negative or other derivations of these or other comparable terms. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to such parties on the date of this Official Statement, and neither the Authority nor the City assumes any obligation to update any such forward-looking statements. The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in various important factors. Accordingly, actual results may vary from the projections, forecasts and estimates contained in this Official Statement and such variations may be material, which could affect the ability to fulfill some or all of the obligations under the 2017 Bonds.

**Public Offering Prices.** In connection with the offering of the 2017 Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the 2017 Bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

**No Recommendation or Registration.** The 2017 Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense. The 2017 Bonds have not been registered with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, in reliance upon the exemption contained in Section 3(a)(2) of such act; and the Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions contained in such act.

**Bond Insurance.** Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the 2017 Bonds or the advisability of investing in the 2017 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "THE 2017 BONDS – Bond Insurance" and "APPENDIX H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

## Summary of the Offering

***This summary is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the 2017 Bonds to potential investors is made only by means of the entire Official Statement, including the cover page, the inside cover page, and the Appendices. Capitalized terms used in this summary and not otherwise defined in the front portion of this Official Statement have the meanings given to such terms in APPENDIX D.***

| | |
|---|---|
| **Issuer:** | Philadelphia Authority for Industrial Development (the "Authority"). |
| **Bonds Offered:** | $52,910,000 aggregate principal amount of the Authority's City Service Agreement Revenue Bonds (City of Philadelphia Affordable Housing Preservation Programs Project), Series 2017 (the "2017 Bonds"). |
| **Interest Payment Dates:** | Interest on the 2017 Bonds is payable semiannually on each June 1 and December 1, commencing on December 1, 2017. |
| **Security and Sources of Payment:** | The following is qualified in all respects by the information in this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS" and the documents referenced under such caption.<br><br>The 2017 Bonds are payable by the Authority solely from certain service fee payments (the "Service Fee") to be paid by The City of Philadelphia (the "City") under the Service Agreement dated as of August 1, 2017 (the "Service Agreement"), between the Authority and the City, and certain funds held under the Indenture.<br><br>The Service Fee payable under the Service Agreement is sized to be sufficient to pay, among other things, the principal of and interest on the 2017 Bonds when due. The Service Fee is payable solely from the current revenues of the City and is subject to annual appropriation by the City; City Council is required by the City Charter to appropriate to pay the Service Fee in each Fiscal Year. The City has covenanted in the Service Agreement and the Ordinance to include in its annual operating budget and appropriate in each Fiscal Year amounts sufficient to pay all Service Fee payments in such Fiscal Year when due. The obligation of the City to pay the Service Fee pursuant to the Service Agreement is unconditional and absolute.<br><br>**The 2017 Bonds are special limited obligations of the Authority, payable solely and exclusively from the revenues pledged therefor, including certain payments required to be made by the City under the Service Agreement and from certain other funds held by the Trustee under the Indenture. The 2017 Bonds or interest thereon shall not be in any way a debt or liability of the City, the Commonwealth of Pennsylvania (the "Commonwealth") or any political subdivision or agency thereof and shall not create or constitute an indebtedness, liability or obligation of the City, the Commonwealth or any political subdivision or agency thereof, either legal, moral or otherwise. Neither the general credit of the Authority nor the credit or taxing power of the City, the Commonwealth or any political subdivision or agency thereof is pledged to the payment of the principal of or interest on the 2017 Bonds. The Authority has no taxing power. The 2017 Bonds are not secured by the General Fund of the City.** |
| **Insurance for Certain 2017 Bonds:** | The scheduled payment of principal of and interest on the 2017 Bonds maturing on December 1, 2024 through December 1, 2027, inclusive, and December 1, 2029 through December 1, 2032, inclusive (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp. See "THE 2017 BONDS – Bond Insurance" and "APPENDIX H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY." |

| | |
|---|---|
| **Additional Obligations:** | The Authority has reserved the right to issue additional bonds secured on a parity basis with the 2017 Bonds and certain other obligations secured on a parity or subordinate basis with the 2017 Bonds under the circumstances and upon satisfaction of certain conditions described in the Ordinance and Indenture, as further described herein. See "THE 2017 BONDS – Additional Obligations" herein. |
| **Use of Proceeds:** | The proceeds of the 2017 Bonds are being used to (i) finance certain costs of the City's affordable housing preservation programs, as further described in the Ordinance, and (ii) pay the costs of issuing the 2017 Bonds and the costs of credit enhancement. See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS" herein. |
| **Redemption:** | The 2017 Bonds are subject to redemption prior to maturity, as described herein. See "THE 2017 BONDS – Redemption Provisions" herein. |
| **Authorized Denominations:** | The 2017 Bonds will be issued as registered bonds in denominations of $5,000 and integral multiples thereof. |
| **Form and Depository:** | The 2017 Bonds will be delivered solely in registered form under a global book-entry system through the facilities of DTC. See APPENDIX G. |
| **Tax Status:** | For information on the tax status of the 2017 Bonds, see the italicized language at the top of the cover page of this Official Statement and "TAX MATTERS" herein. |
| **Ratings:** | Fitch "A-"<br>Moody's "A2" / "A2" (Insured Bonds)<br>S&P "A+" / "AA" (Insured Bonds)<br><br>See "RATINGS" herein. |

## TABLE OF CONTENTS

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**OFFICIAL STATEMENT**

**Relating To**

**$52,910,000**
**PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT**

**City Service Agreement Revenue Bonds**
**(City of Philadelphia Affordable Housing Preservation Programs Project),**
**Series 2017**

## INTRODUCTION

### General

This Official Statement, including the cover page, the inside cover page and the attached Appendices, is furnished in connection with the offering by the Philadelphia Authority for Industrial Development, Philadelphia, Pennsylvania (the "Authority") of $52,910,000 aggregate principal amount of its City Service Agreement Revenue Bonds (City of Philadelphia Affordable Housing Preservation Programs Project), Series 2017 (the "2017 Bonds"). Reference should be made to the material under the caption "THE 2017 BONDS" for a description of the 2017 Bonds and to APPENDIX G for a description of the book-entry system applicable thereto.

Certain factors that may affect an investment decision concerning the 2017 Bonds are described throughout this Official Statement. Prospective purchasers considering a purchase of the 2017 Bonds should read this Official Statement, including the cover page, the inside cover page and the Appendices, which are an integral part hereof, in its entirety. All estimates and assumptions of financial and other information are based on information currently available, are believed to be reasonable and are not to be construed as assurances of actual outcomes. All estimates of future performance or events constituting forward-looking statements may or may not be realized because of a wide variety of economic and other circumstances. Included in such forward-looking statements are numbers and other information from the adopted and proposed budgets of The City of Philadelphia (the "City"), as well as from the City's five-year financial plans. See APPENDIX A – "DISCUSSION OF FINANCIAL OPERATIONS – Current Financial Information" hereto. Accordingly, no assurance is given that any projected future results will be achieved.

Changes from the Preliminary Official Statement. The Preliminary Official Statement for the 2017 Bonds was dated July 21, 2017 (the "Preliminary Official Statement"). In addition to updating the Preliminary Official Statement with the pricing information for the 2017 Bonds, including the interest rates, maturities, redemption provisions, and the Fiscal Year Debt Service Requirements, this Official Statement includes information regarding insurance for certain 2017 Bonds, as further described below.

*Insurance for Certain 2017 Bonds*. The scheduled payment of principal of and interest on the Insured Bonds (as defined herein), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp. ("AGM"). For more information on such policy and AGM, see "THE 2017 BONDS – Bond Insurance" and "APPENDIX H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

**Authorization**

The 2017 Bonds are being issued pursuant to the provisions of (i) 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"), (ii) a resolution of the Authority adopted June 6, 2017 (the "Authority Resolution"), (iii) a Trust Indenture, dated as of August 1, 2017 (the "Indenture") by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and (iv) the Ordinance (as defined herein).

Pursuant to an Ordinance (Bill No. 161014) passed by the Council of the City of Philadelphia ("City Council") on December 8, 2016 and signed by the Mayor of the City on December 20, 2016 (the "Ordinance"), the City has (i) authorized and approved the execution and delivery of the Service Agreement (as defined herein); (ii) approved the issuance from time to time by the Authority of bonds, notes or other evidences of indebtedness in the aggregate principal amount not to exceed $60 million, net of original issue discount, plus amounts necessary for costs of issuance, amounts necessary to effect any refunding, interest on such obligations approved under the Ordinance, and costs of liquidity and/or credit enhancement, to finance, among other things, certain costs of the City's affordable housing preservation programs; and (iii) authorized and approved the performance by the City of its obligation to pay in full when due the Service Fee (as defined herein) and other amounts payable under the Service Agreement.

**Purpose**

The proceeds of the 2017 Bonds are being used to (i) finance certain costs of the City's affordable housing preservation programs, as further described in the Ordinance, and (ii) pay the costs of issuing the 2017 Bonds and the costs of credit enhancement. See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS" herein.

**Philadelphia Authority for Industrial Development**

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 Act. See "THE AUTHORITY" herein.

**Security for the 2017 Bonds**

The following is qualified in all respects by the information in this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS" and the documents referenced under such caption.

The 2017 Bonds are payable by the Authority solely from certain service fee payments (the "Service Fee") to be paid by the City under the Service Agreement dated as of August 1, 2017 (the "Service Agreement"), between the Authority and the City, and certain funds held by the Trustee under the Indenture.

General. The Service Fee payable under the Service Agreement is sized to be sufficient to pay, among other things, the principal of and interest on the 2017 Bonds when due. The Service Fee is payable solely from the current revenues of the City, and is subject to annual appropriation by the City. City Council is obligated by the City Charter (as defined herein) to make appropriations from year to year to pay the Service Fee coming due under the Service Agreement. The City has covenanted in the Service Agreement and the Ordinance to include in its annual operating budget and appropriate in each Fiscal

Year amounts sufficient to pay all Service Fee payments in such Fiscal Year when due. The obligation of the City to pay the Service Fee pursuant to the Service Agreement is unconditional and absolute.

Under the Indenture, the Authority has assigned and granted to the Trustee a security interest in all of the right, title and interest of the Authority in and to the Service Agreement (except for rights reserved under the Service Agreement) and the Revenues (as defined herein). The City has covenanted in the Ordinance to make all Service Fee payments and other amounts due under the Service Agreement directly to the Trustee, as assignee of the Authority, so long as any bonds are Outstanding under the Indenture.

**Limited Obligations. The 2017 Bonds are special limited obligations of the Authority, payable solely and exclusively from the revenues pledged therefor, including certain payments required to be made by the City under the Service Agreement and from certain other funds held by the Trustee under the Indenture. The 2017 Bonds or interest thereon shall not be in any way a debt or liability of the City, the Commonwealth or any political subdivision or agency thereof and shall not create or constitute an indebtedness, liability or obligation of the City, the Commonwealth or any political subdivision or agency thereof, either legal, moral or otherwise. Neither the general credit of the Authority nor the credit or taxing power of the City, the Commonwealth or any political subdivision or agency thereof is pledged to the payment of the principal of or interest on the 2017 Bonds. The Authority has no taxing power. The 2017 Bonds are not secured by the General Fund of the City.**

**Trustee**

U.S. Bank National Association is a national banking association formed under the laws of the United States of America and serves as Trustee under the Indenture. The address of the designated corporate trust office of the Trustee is Two Liberty Place, 50 S. 16th Street, Suite 2000, Mail Station EX-PA-WBSP, Philadelphia, PA 19102, Attention: Global Corporate Trust Services.

**Information Regarding The City of Philadelphia**

The City's Comprehensive Annual Financial Report and other information about the City can be found on the City's website at www.phila.gov/investor (the "City's Investor Website"). 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's Investor Website does not constitute an offer to buy or sell securities, nor is it a solicitation therefor. The information contained on the City's Investor Website is not incorporated by reference in this Official Statement and persons considering a purchase of the 2017 Bonds should rely only on information contained in this Official Statement or incorporated by reference herein.

APPENDIX A provides information regarding the City, including relevant statutory provisions, financial information, litigation information, the City's relationship with the Pennsylvania Intergovernmental Cooperation Authority ("PICA") and the City's five-year plans. APPENDIX B contains socioeconomic and demographic information about the City. APPENDIX C contains the Comprehensive Annual Financial Report of the City for the Fiscal Year ended June 30, 2016 (the "Fiscal Year 2016 CAFR"). Certain information contained in APPENDIX A regarding the City is for periods prior to or subsequent to June 30, 2016. As a result, certain of the information in APPENDIX C may vary from corresponding information concerning the City in APPENDIX A.

The City Controller has examined and expressed opinions on the basic financial statements of the City contained in the Fiscal Year 2016 CAFR. 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 basic financial statements of the City in the Fiscal Year 2016 CAFR.

The Authority makes no representation as to the accuracy of any information contained in, or referenced in, this Official Statement relating to the City. Because the general credit of the Authority is not pledged to the payment of the 2017 Bonds, no financial information or operating data with respect to the Authority has been included in this Official Statement.

**Miscellaneous**

Brief descriptions of the Authority, the 2017 Bonds, the Service Agreement, the Ordinance, and the Indenture are included in this Official Statement. The summaries of the documents contained herein do not purport to be complete, comprehensive or definitive and are qualified in their entirety by reference to the entire text of such documents, and the description herein of the 2017 Bonds is qualified in its entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights.

Copies of the Ordinance, the Indenture, and the Service Agreement may be obtained from the Authority and, during the initial offering period, at the principal offices of PNC Capital Markets LLC, the Representative of the Underwriters. After initial delivery of the 2017 Bonds, such copies may be obtained from the Trustee at its designated corporate trust office.

This Official Statement speaks only as of the date printed on the cover page hereof. The information contained herein is subject to change. This Official Statement will be made available through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System, accessible at http://emma.msrb.org.

## THE AUTHORITY

The Authority is a public body corporate and politic organized and existing under and governed by the Act. The Authority is a public instrumentality of the Commonwealth created by the City 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. A Certificate of Amendment evidencing the amendment of the Authority's Articles of Incorporation, extending the terms of existence of the Authority, was issued on September 21, 2011. The Authority's existence will continue for 50 years from September 21, 2011.

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**Board of the Authority**

The governing body of the Authority is a board consisting of up to 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 of the board and certain of the officers of the Authority.

| Name | Position |
|---|---|
| Evelyn F. Smalls | Chairperson |
| Thomas A. K. Queenan | Treasurer |
| David L. Hyman, Esquire | Secretary |
| Dennis J. Pagliotti | Member |
| Joseph A. Mee[(1)] | Assistant Secretary |
| Anthony Simonetta[(1)] | Assistant Treasurer |

[(1)] 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, is separately secured, and is separate and independent from the 2017 Bonds as to sources of payment and security.

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. However, the 2017 Bonds are payable solely from the funds pledged under the Indenture, and any other obligations issued by the Authority are payable solely from the funds specifically pledged for the payment of such other obligations. Accordingly, a default on another issue of obligations issued by the Authority (other than any obligations issued by the Authority under the Indenture) would not constitute a default on the 2017 Bonds. The Authority may from time to time enter into further 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.

**Certain Other Activities**

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 legal title to 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 Department of Defense.

THE AUTHORITY HAS NOT PREPARED OR ASSISTED IN THE PREPARATION OF THIS OFFICIAL STATEMENT. EXCEPT FOR THE STATEMENTS MADE UNDER THE HEADINGS "THE AUTHORITY" AND "NO LITIGATION – THE AUTHORITY," 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. ACCORDINGLY, EXCEPT AS AFORESAID, THE AUTHORITY DISCLAIMS RESPONSIBILITY FOR THE DISCLOSURES SET FORTH HEREIN MADE IN CONNECTION WITH THIS OFFER, SALE, AND DISTRIBUTION OF THE 2017 BONDS.

The Authority's address is 1500 Market Street, Suite 2600 Centre Square West, Philadelphia, Pennsylvania 19102-2126.

## THE 2017 BONDS

### General

The 2017 Bonds will be dated the date of their issuance and delivery and will bear interest at the respective rates per annum and will mature in the amounts and on the dates set forth on the inside cover page hereof. The 2017 Bonds are being issued as fully registered bonds without coupons in denominations of $5,000 and integral multiples thereof. Interest on the 2017 Bonds will be payable semiannually on each June 1 and December 1, commencing on December 1, 2017 (each an "Interest Payment Date"). Interest shall be computed on the basis of a year of 360 days, consisting of twelve 30-day months.

The principal or redemption price of the 2017 Bonds will be payable at the designated corporate trust office of the Trustee or any Paying Agent upon surrender of such 2017 Bonds by the Registered Owners (as defined herein) thereof. Interest on each 2017 Bond is payable by check or draft of the Trustee mailed to the person in whose name such 2017 Bond is registered on the registration books maintained by the Trustee at the close of business on the Record Date (as defined herein) or by wire transfer to an account at a financial institution within the continental United States to the Registered Owner of at least $1,000,000 in aggregate principal amount of 2017 Bonds upon written notice provided by such Registered Owner to such Trustee not later than the Record Date for the first payment to which such person's election applies. The Record Date for any Interest Payment Date for the 2017 Bonds will be the fifteenth day preceding such Interest Payment Date (whether or not a business day).

If available funds are insufficient on any Interest Payment Date to pay the interest then due, such interest will cease to be payable to the person in whose name such 2017 Bond is registered in the bond register ("Registered Owner") maintained by the Trustee as of the relevant Record Date. If sufficient funds thereafter become available for the payment of such overdue interest, the Trustee has agreed to establish a special interest payment date on which such overdue interest will be paid and a special record date (the fifteenth ($15^{th}$) day preceding the special interest payment date (whether or not a business day)) relating thereto for determining the owners of the 2017 Bonds entitled to such payments.

The Trustee shall mail a notice of the special record date and special interest payment date for the 2017 Bonds to each Registered Owner of the 2017 Bonds at least ten (10) days but not more than thirty (30) days prior to the special interest payment date for the 2017 Bonds.

The 2017 Bonds will be issued initially in "book entry" form only, as described in APPENDIX G.

### Transfer and Exchange

The 2017 Bonds may be transferred and exchanged upon delivery thereof to the office of the Trustee, to the extent and upon the conditions set forth in the Indenture. No service charge shall be made for any exchange or transfer, but the Authority or the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed.

Neither the Authority nor the Trustee is required to transfer or exchange any 2017 Bond during the fifteen (15) days immediately preceding the date of selection of the 2017 Bonds to be redeemed and ending at the close of business on the date on which the notice of redemption is given, or to transfer or exchange any 2017 Bond selected or called for redemption in whole or in part.

No transfer or exchange of 2017 Bonds made other than as described above and in the Indenture will be valid or effective for any purpose thereunder.

If any 2017 Bond is mutilated, lost, stolen or destroyed, the Authority has agreed to execute and the Trustee has agreed to authenticate and deliver a new 2017 Bond of like tenor and denomination, subject to compliance with the requirements of the Indenture. The Authority and the Trustee may require indemnification against any and all claims arising out of the issuance of substitute 2017 Bonds.

**Redemption Provisions**

Optional Redemption. The 2017 Bonds maturing on or after December 1, 2027 are subject to redemption prior to maturity at any time on or after June 1, 2027, as a whole or in part (and if in part, in such order of maturity as directed by the City and within a maturity by lot), at the option of the Authority as directed by the City, at par, plus accrued interest to the date of redemption.

Mandatory Redemption. The 2017 Bonds maturing on December 1, 2037, are subject to mandatory sinking fund redemption prior to maturity (to the extent that 2017 Bonds of such maturity in the principal amount otherwise required to be redeemed have not been previously purchased or optionally redeemed), on December 1 of the years and in the principal amounts set forth below, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

| Year (December 1) | Amount |
|---|---|
| 2036 | $3,995,000 |
| 2037* | $4,200,000 |

*Final maturity.

In the event a portion, but not all, of the 2017 Bonds maturing on December 1, 2037 are redeemed pursuant to optional redemption or purchased by the City and presented to the Trustee for cancellation, then the principal amount of any remaining mandatory sinking fund redemptions or the final maturity applicable to such 2017 Bonds shall be reduced (subject to the ability to effect future redemptions of the 2017 Bonds in authorized denominations) in such amounts as specified by the City.

Selection of 2017 Bonds for Redemption. In the event that less than all 2017 Bonds of a maturity are to be redeemed, such 2017 Bonds shall be selected for redemption by lot in such manner as the Trustee may determine, except that in the case of any 2017 Bonds of varying denominations, each 2017 Bond shall be treated as representing that number of 2017 Bonds which is obtained by dividing the face amount thereof by the smallest authorized denomination.

So long as DTC or a successor securities depository is the sole registered owner of the 2017 Bonds, partial redemptions will be done in accordance with DTC procedures. See APPENDIX G for information on DTC and its "book entry" only procedures.

Notice of Redemption. Under the Indenture, notice of any redemption shall be given not less than thirty (30) days prior to the redemption date by mailing by first class mail, postage prepaid, a copy of the redemption notice to the Registered Owner of each 2017 Bond to be redeemed at the address shown on the registration books kept by the Trustee. Any 2017 Bond called for redemption will be payable at the designated corporate trust office of the Trustee. Notice of an optional redemption may be conditioned upon the deposit with the Trustee of monies sufficient to redeem all the 2017 Bonds called for redemption not later than the date fixed for redemption and such notice will be of no effect unless such monies are so deposited. All 2017 Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date.

Any notice of redemption mailed in accordance with the requirements set forth in the Indenture will be conclusively presumed to have been duly given, whether or not such notice is actually received by the applicable Holder of the 2017 Bonds. No defect in the notice with respect to any 2017 Bond, whether in the form of notice or the mailing thereof (including any failure to mail such notice), will affect the validity of the redemption proceedings as to any other 2017 Bonds.

### Additional Obligations

The Indenture provides for the issuance of Additional Obligations or Related Obligations, secured on a parity basis with the 2017 Bonds under the circumstances and upon satisfaction of certain conditions in the Indenture. No Additional Obligation may be issued under the Indenture or any Related Obligation incurred unless the City executes and delivers to the Authority an amendment or supplement to the Service Agreement acknowledging the issuance of such Additional Obligations or incurrence of such Related Obligations and confirming the obligations of the City to pay the Service Fee in amounts sufficient to pay the Payment Obligations with respect to such Additional Obligations or Related Obligations. Under the Indenture, proceeds of Additional Obligations are required to be deposited as set forth in a Supplemental Indenture providing for the issuance thereof.

For more information on the Indenture and the Service Agreement, see "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SERVICE AGREEMENT" in APPENDIX D hereto.

### Bond Insurance

*The information contained under this heading relates to the insurer of certain 2017 Bonds, as further described below. Such information has been obtained from the insurer for use in this Official Statement. No representation is made by the Authority, the City or the Underwriters as to the accuracy or completeness of this information.*

Bond Insurance Policy. Concurrently with the issuance of the 2017 Bonds, AGM will issue its Municipal Bond Insurance Policy (the "Policy") for the 2017 Bonds maturing on December 1, 2024 through December 1, 2027, inclusive, and December 1, 2029 through December 1, 2032, inclusive (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as "APPENDIX H" to this Official Statement.

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

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

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating

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

*Current Financial Strength Ratings*. On June 26, 2017, S&P issued a research update report in which it affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 14, 2016, KBRA issued a financial guaranty surveillance report in which it affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On August 8, 2016, Moody’s published a credit opinion affirming its existing insurance financial strength rating of “A2” (stable outlook) on AGM. AGM can give no assurance as to any further ratings action that Moody’s may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

*Capitalization of AGM.* At March 31, 2017:

- The policyholders’ surplus of AGM was approximately $2,204 million.

- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (“MAC”) (as described below) were approximately $1,263 million. Such amount includes 100% of AGM’s contingency reserve and 60.7% of MAC’s contingency reserve.

- The net unearned premium reserves of AGM and its subsidiaries (as described below) were approximately $1,349 million. Such amount includes (i) 100% of the net unearned premium reserves of AGM and AGM’s wholly owned subsidiary Assured Guaranty (Europe) Ltd. and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders’ surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of Assured Guaranty (Europe) Ltd were determined in accordance with accounting principles generally accepted in the United States of America.

*Incorporation of Certain Documents by Reference*. Portions of the following documents filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (filed by AGL with the SEC on February 24, 2017); and

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (filed by AGL with the SEC on May 5, 2017).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the 2017 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under "THE 2017 BONDS – Bond Insurance – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

*Miscellaneous Matters*. AGM makes no representation regarding the 2017 Bonds or the advisability of investing in the 2017 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under this caption.

## SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS

### General

The 2017 Bonds are secured as Obligations under the Indenture and are special limited obligations of the Authority and, together with any Additional Obligations, Related Obligations, and Credit Facility Payment Obligations, are payable solely and exclusively from the revenues pledged under the Indenture for their payment and derived by the Authority under the Service Agreement. Pursuant to the Indenture, the Service Fee payable by the City pursuant to the Service Agreement is pledged as part of the Trust Estate (defined below).

**The 2017 Bonds or interest thereon shall not be in any way a debt or liability of the City, the Commonwealth or any political subdivision or agency thereof and shall not create or constitute an indebtedness, liability or obligation of the City, the Commonwealth or any political subdivision or agency thereof, either legal, moral or otherwise. Neither the general credit of the Authority nor the credit or taxing power of the City, the Commonwealth or any political subdivision or agency**

**thereof is pledged to the payment of the principal of or interest on the 2017 Bonds. The Authority has no taxing power. The 2017 Bonds are not secured by the General Fund of the City**.

City Charter. Under the City's Home Rule Charter, at 351 Pa. Code § 2.2-309 (the "City Charter"), City Council is obligated to make annual appropriations to pay amounts coming due under the Service Agreement as provided in the Ordinance, as further described below. The City Charter permits City Council to authorize service contracts of a duration of more than one year without making appropriations therefor beyond the current year. Such contracts are valid and binding upon the City although no appropriations have been made for the ensuing years during which such agreements are to be operative, but it is the duty of City Council to make subsequent appropriations from year to year to pay amounts coming due under such contracts. The Service Agreement constitutes such a service contract.

Ordinance. Pursuant to the Ordinance, City Council has authorized the Service Agreement. The City has covenanted in the Ordinance to budget and make appropriations in each and every Fiscal Year in such amounts as will be required to make timely all Service Fee payments and pay timely all other amounts due and payable under the Service Agreement, and to make such payments to the Trustee, as assignee of the Authority, so long as Obligations (including the 2017 Bonds) issued by the Authority under the Indenture are Outstanding.

Obligation of City to Pay Service Fee Unconditional and Absolute. The Service Agreement provides that the City is required to pay the Service Fee and additional amounts required under the Service Agreement with respect to administrative fees and expenses. The Ordinance and the Service Agreement provide that the obligation of the City to pay the Service Fee shall be absolute and unconditional and shall not be suspended, abated, reduced, abrogated, waived or diminished regardless of any cause or circumstances, including any defense, setoff, recoupment or counterclaim that the City might otherwise have or assert against the Authority, the Trustee, any Holder of the Obligations (including the 2017 Bonds), any person entitled to payments under Related Obligations, any Credit Issuer, or any other person.

**2017 Bonds**

Indenture. In order to secure (i) all Obligations issued and Outstanding in accordance with the Indenture and each Supplemental Indenture, (ii) the payment of all Related Obligations, and to the extent and in the manner provided in the Indenture, the payment of Credit Facility Payment Obligations, (iii) the right of the Holders of Obligations and persons entitled to payments under Related Obligations (and, to the extent provided in the Indenture, Credit Issuers), and (iv) the performance and observance of all of the covenants contained in the Indenture and the Obligations, the Authority has assigned and granted to the Trustee a security interest in all of the right, title, and interest of the Authority in and to (a) the Service Agreement (except for rights reserved under the Service Agreement) and (b) the Revenues (collectively, the "Trust Estate").

The term "Revenues" is defined in the Indenture as (i) the Service Fee and all other amounts payable to the Authority by the City under the Service Agreement, and all rights to receive the same (except for payments with respect to the Reserved Rights), (ii) all moneys, investments and securities at any time and from time to time held in the Funds and Accounts including all interest earnings and gains on sales of Investment Securities on deposit in such Funds and Accounts established under the Indenture, and (iii) any other amounts appropriated by the City and paid by the City to the Authority or the Trustee and pledged by the Authority as security for the payment of Payment Obligations and Credit Facility Payment Obligations or received from any other source by the Authority or the Trustee and pledged by the Authority as security for the payment of Payment Obligations and Credit Facility Payment Obligations.

The pledge granted to secure the Credit Facility Payment Obligations under the Indenture is subject and subordinate to the pledge and security interest granted to secure the Obligations and Related Obligations.

Service Agreement. The City has agreed in the Service Agreement to pay to the Trustee, as assignee of the Authority, the Service Fee in an amount sufficient, among other things, to pay the Annual Debt Service Requirement. Such term is defined in the Service Agreement as, with respect to each Fiscal Year, the sum of the amounts required to be paid by the Authority in such Fiscal Year for (i) the payment of principal and mandatory sinking fund redemptions of and interest on the Obligations, (ii) payments under any Related Obligations, and (iii) the payment of any Credit Facility Payment Obligations. See "– Service Fee Payable Out of Current Revenues; Covenant to Budget and Appropriate; Not City Indebtedness" below.

The failure of the City to pay the Service Fee or any other payment required to be paid by the City under the Service Agreement when due constitutes a default under the Service Agreement. A default under the Service Agreement will not cause an acceleration of payments thereunder. See "– Remedies for Bondholders" below.

See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SERVICE AGREEMENT" in APPENDIX D hereto.

**Service Fee Payable Out of Current Revenues; Covenant to Budget and Appropriate; Not City Indebtedness**

The Service Fee is payable only out of current revenues of the City, and is subject to annual appropriation by the City. The City has agreed in the Service Agreement to provide for the payment of the Service Fee and include the same in its annual operating budget for each Fiscal Year. The City covenants in the Service Agreement to make appropriations in each of its Fiscal Years in such amounts as shall be required in order to make all Service Fee payments due and payable under the Service Agreement in each of the City's Fiscal Years. If the City's current revenues are insufficient to pay the total Service Fee in any Fiscal Year as the same becomes due and payable, the City covenants in the Service Agreement to include amounts not so paid in its operating budget for the ensuing Fiscal Year in order to provide sufficient current revenues to pay in each ensuing Fiscal Year such balance due for the preceding Fiscal Year in addition to the amount of the Service Fee due for such ensuing Fiscal Year. See APPENDIX A – "DISCUSSION OF FINANCIAL OPERATIONS – Budget Procedure" hereto.

The City's obligations under the Service Agreement are not part of the indebtedness 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 its taxing power for the payment of its obligations under the Service Agreement.

**Remedies for Bondholders**

The failure to pay, as the case may be, interest on, or principal or redemption price of, the 2017 Bonds when due constitutes an Event of Default under the Indenture. Upon the occurrence and continuation of such an Event of Default, the Trustee may (or, at the direction of the Holders of a majority in principal amount of the Obligations on the terms set forth in the Indenture, shall) declare the principal amount of the Obligations then Outstanding to be immediately due and payable.

In addition, if such an Event of Default is continuing, the Trustee may (or, at the direction of the Holders of a majority in principal amount of the Obligations on the terms set forth in the Indenture, shall), in its own name exercise certain remedies in accordance with the terms set forth in the Indenture including: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Holders of the Obligations including the right to require the Authority to enforce collection of all amounts due and payable under the Service Agreement (other than with respect to rights reserved under the Service Agreement) and to require the Authority to carry out any other agreements with, or for the benefit of, the Holders of the Obligations and to perform its duties under the Act; (b) bring suit upon the Obligations; (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 of the Obligations; and (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 of the Obligations and the Credit Issuers.

Upon the occurrence and continuance of a payment default under the Service Agreement, the Authority (or the Trustee as assignee of the Authority) may, at its option exercise one or more of certain remedies including, among other things, instituting proceedings to require the City to perform its obligations under the Service Agreement or to enjoin violations of the Authority's rights under the Service Agreement. In no event (including an acceleration of the Authority's payment obligations under the 2017 Bonds) shall payment of the Service Fee due under the Service Agreement be accelerated.

*Accordingly, although the Trustee can accelerate the Authority's payment obligations with respect to the 2017 Bonds, neither the Authority nor the Trustee is empowered to accelerate the City's obligations under the Service Agreement to make payments thereunder in amounts sufficient to pay, among other things, the principal of and interest on the 2017 Bonds upon the occurrence and continuance of an Event of Default under the Indenture.*

For additional information regarding the rights of the Holders of the 2017 Bonds and remedies available upon the occurrence of events of default under the Indenture and the Service Agreement, as well as limitations on such rights and remedies, see APPENDIX D.

The rights and remedies of Holders of the 2017 Bonds with respect to the City's and the Authority's obligations under the Service Agreement, the Indenture, and the 2017 Bonds could be significantly limited by the provisions of Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Chapter 9 permits, under prescribed circumstances (and only after an authorization by the applicable state legislature or by a governmental office or organization empowered by state law to give such authorization), a "municipality" of a state to file a petition for relief in a bankruptcy court of the United States if it is insolvent or unable to meet its debts as they mature, and it desires to effect a plan to adjust its debt. Chapter 9 defines "municipality" as a "political subdivision or public agency or instrumentality of a State." Thus, for purposes of Chapter 9, except as may be limited by state law, each of the Authority and the City would be considered a "municipality." As a result of the commencement of a federal bankruptcy case by either the Authority or the City, Holders of the 2017 Bonds could experience delays in receiving bond payments, as well as partial or total losses of their investments in the 2017 Bonds.

The Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Pa. P.L. 9, No. 6 (1991)) (the "PICA Act"), prohibits the City from filing a petition for relief under Chapter 9 of the United States Bankruptcy Code so long as PICA has outstanding any bonds issued pursuant to the PICA Act. As of May 31, 2017, the principal amount of PICA bonds outstanding was $266,095,000. The final maturity date for such PICA bonds is June 15, 2023. Furthermore, if no PICA bonds are 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 Governor were to grant an approval for the City to file a petition under Chapter 9, and the City were to file, provisions of the United States Bankruptcy Code could limit the enforcement of the rights and remedies of the Holders of the 2017 Bonds. See APPENDIX A – "THE

GOVERNMENT OF THE CITY OF PHILADELPHIA – Local Government Agencies – *Non-Mayor-Appointed or Nominated Agencies* – PICA."

No Pennsylvania law currently permits an entity such as the Authority to file a petition under Chapter 9 nor is there any state law that permits any state official to authorize such a filing by the Authority.

Regardless of any specific adverse determinations in an Authority or City bankruptcy proceeding, the existence of such a proceeding could have a materially adverse effect on the liquidity and value of the 2017 Bonds.

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

The proceeds of the 2017 Bonds are being used to (i) finance certain costs of the City's affordable housing preservation programs, as further described in the Ordinance, and (ii) pay the costs of issuing the 2017 Bonds.

The City's affordable housing preservation programs, which will be financed, in part, with the proceeds of the 2017 Bonds, are briefly described below. It is currently anticipated that the majority of the proceeds of the 2017 Bonds will be applied to costs of the Basic Systems Repair Program. The City currently anticipates contracting with the Philadelphia Housing Development Corporation ("PHDC") to administer the expenditure of the proceeds of the 2017 Bonds on these programs.

- Basic Systems Repair Program – provides repairs to the electrical, plumbing and heating systems of owner-occupied homes as well as roof replacements.

- Adaptive Modifications Program – helps individuals with permanent physical disabilities live more independently in both owner-occupied and tenant-occupied homes by providing adaptations that allow easier access and mobility.

- Weatherization Assistance Program – provides weatherization and energy-efficiency improvements to owner-occupied houses and tenant-occupied rental units.

The following table sets forth estimated sources and uses of funds in connection with the 2017 Bonds:

| | |
|---|---|
| **Sources of Funds** | |
| Principal Amount | $52,910,000.00 |
| Original Issue Premium | 7,902,320.70 |
| **Total Sources of Funds** | **$60,812,320.70** |
| | |
| **Uses of Funds** | |
| Project Fund | $60,000,000.00 |
| Costs of Issuance[(1)] | 812,320.70 |
| **Total Uses of Funds** | **$60,812,320.70** |

[(1)] Includes legal fees, Underwriters' discount, printing costs, rating agency fees, trustee fees, co-financial advisor fees, bond insurance costs, and other expenses of the offering.

## FISCAL YEAR DEBT SERVICE REQUIREMENTS

Set forth below is the schedule of debt service payments due on the 2017 Bonds in each Fiscal Year of the City ending June 30.

| Period Ending June 30, | 2017 Bonds Principal | 2017 Bonds Interest | Total |
|---|---|---|---|
| 2018 | | $2,029,890 | $2,029,890 |
| 2019 | $1,760,000 | 2,546,700 | 4,306,700 |
| 2020 | 1,825,000 | 2,483,800 | 4,308,800 |
| 2021 | 1,895,000 | 2,409,400 | 4,304,400 |
| 2022 | 1,985,000 | 2,321,875 | 4,306,875 |
| 2023 | 2,085,000 | 2,220,125 | 4,305,125 |
| 2024 | 2,195,000 | 2,113,125 | 4,308,125 |
| 2025 | 2,305,000 | 2,000,625 | 4,305,625 |
| 2026 | 2,425,000 | 1,882,375 | 4,307,375 |
| 2027 | 2,550,000 | 1,758,000 | 4,308,000 |
| 2028 | 2,680,000 | 1,627,250 | 4,307,250 |
| 2029 | - | 1,560,250 | 1,560,250 |
| 2030 | 2,815,000 | 1,489,875 | 4,304,875 |
| 2031 | 2,960,000 | 1,345,500 | 4,305,500 |
| 2032 | 3,110,000 | 1,193,750 | 4,303,750 |
| 2033 | 3,270,000 | 1,034,250 | 4,304,250 |
| 2034 | 3,440,000 | 866,500 | 4,306,500 |
| 2035 | 3,615,000 | 690,125 | 4,305,125 |
| 2036 | 3,800,000 | 504,750 | 4,304,750 |
| 2037 | 3,995,000 | 309,875 | 4,304,875 |
| 2038 | 4,200,000 | 105,000 | 4,305,000 |
| **TOTAL** | **$52,910,000** | **$32,493,040** | **$85,403,040** |

For more information on the City's outstanding debt that is supported by the City's General Fund, see "DEBT OF THE CITY" and "OTHER FINANCING RELATED MATTERS" in APPENDIX A hereto.

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## NO LITIGATION

**The Authority**

There is no controversy or litigation of any nature now pending or threatened seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2017 Bonds or contesting any proceedings of the Authority with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the 2017 Bonds or the existence or powers of the Authority or the validity or enforceability of the Authority Resolution, the 2017 Bonds, the Indenture, or the Service Agreement.

**The City**

Upon delivery of the 2017 Bonds, the City of Philadelphia Law Department (the "Law Department") shall furnish an opinion to the effect, among other things, that, except for litigation and threatened litigation which in the opinion of the Law Department is without merit and except as disclosed in this Official Statement (including APPENDIX A), to the best of its knowledge after customary inquiry, there is no litigation pending against the City before any court, public board or agency or threatened in writing against the City, (i) seeking to restrain or enjoin the issuance, execution, delivery, or sale of the 2017 Bonds or the execution or delivery of the Indenture, or the Service Agreement or the performance of the City's obligations thereunder, (ii) contesting the validity of the Ordinance, (iii) contesting the validity or enforceability of the City's obligations under the 2017 Bonds, the Indenture, or the Service Agreement, (iv) challenging the right of any City official who signs the Service Agreement or the Official Statement to hold his or her office, or (v) in which a final adverse decision can be anticipated which would reasonably be expected to materially and adversely affect the financial condition or operations of the City as a whole or the performance by the City of its obligations under the 2017 Bonds, the Indenture, or the Service Agreement.

## RATINGS

Fitch Ratings, Inc. ("Fitch"), Moody's, and S&P have assigned the following ratings and outlooks on the 2017 Bonds. Such ratings reflect only the view of each such credit rating agency. An explanation of the significance of each of such ratings and any outlook may only be obtained from the rating agency furnishing the same.

| Rating Agency | All 2017 Bonds (underlying rating and outlook) | Insured Bonds (insured rating and outlook) |
|---|---|---|
| Fitch | A- (stable) | N/A |
| Moody's | A2 (negative) | A2 (stable) |
| S&P | A+ (negative) | AA (stable) |

The ratings on the Insured Bonds listed above are expected to be assigned based upon the issuance of the Policy by AGM at the time of delivery of the Insured Bonds. For more information on the Policy, AGM, and AGM's ratings, see "THE 2017 BONDS – Bond Insurance" and "APPENDIX H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein.

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A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. There is no assurance that any such credit rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such credit rating agency if, in its judgment, circumstances so warrant. None of the Authority, the City, or the Underwriters has undertaken any responsibility to assure the maintenance of any rating. The City has agreed, in the Continuing Disclosure Agreement, to report actual rating changes on the 2017 Bonds. See "CONTINUING DISCLOSURE UNDERTAKING" herein and APPENDIX F hereto. Any such downgrade, revision or withdrawal of a rating may have an adverse effect on the market price of or the market for the 2017 Bonds.

## APPROVAL OF LEGAL MATTERS

The 2017 Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters, subject to the receipt of approving opinions with respect to certain legal matters of Cozen O'Connor and Ahmad Zaffarese LLC, Co-Bond Counsel, both of Philadelphia, Pennsylvania. The proposed form of approving opinion of Co-Bond Counsel is attached hereto as APPENDIX E. Certain legal matters will be passed upon for the Authority by Philip Brandt, Esq., Authority Counsel, Philadelphia, Pennsylvania, and for the Underwriters by their counsel, Eckert Seamans Cherin & Mellott, LLC, Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the City of Philadelphia Law Department. Hawkins Delafield & Wood LLP and Law Office of Ann C. Lebowitz, Philadelphia, Pennsylvania, as Co-Disclosure Counsel to the City, will each deliver an opinion to the City and the Underwriters regarding certain matters.

The various legal opinions to be delivered concurrently with the delivery of the 2017 Bonds express the professional judgment of the law firms rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the law firm does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## TAX MATTERS

### Federal Tax Exemption

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the 2017 Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the 2017 Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the Authority, the City, and PHDC subsequent to the issuance and delivery of the 2017 Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The Authority, the City, and PHDC have covenanted to comply with such requirements.

In the opinion of Co-Bond Counsel, interest on the 2017 Bonds will be excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Co-Bond Counsel is subject to the condition that the Authority, the City, and PHDC comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2017 Bonds in order that interest thereon continues to be excluded from gross income. The Authority, the City, and PHDC have covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the 2017 Bonds to be includable in gross income retroactive to the date of issuance of the 2017 Bonds. Interest on the 2017 Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the 2017 Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax.

In addition to the matters addressed above, prospective purchasers of the 2017 Bonds should be aware that ownership of the 2017 Bonds may result in collateral tax consequences to certain taxpayers, including, but not limited to, foreign corporations, certain S corporations, recipients of social security and railroad retirement benefits, financial institutions and property or casualty insurance companies. Co-Bond Counsel expresses no opinion regarding any other federal tax consequences relating to the 2017 Bonds or the receipt of interest thereon, and prospective purchasers should consult their own tax advisors as to collateral federal income tax consequences.

Original Issue Premium. The 2017 Bonds have been sold with original issue premium. An amount equal to the excess of the initial public offering price of a 2017 Bond over its stated redemption price at maturity constitutes premium on such 2017 Bond. A purchaser of a 2017 Bond must amortize any premium over such 2017 Bond's term using constant yield principles. The amount of amortized bond premium (i) reduces the holder's basis in the 2017 Bond for purposes of determining gain or loss for federal income tax purposes upon the sale or other disposition of the 2017 Bond and (ii) is not allowed as a deduction for federal income tax purposes to the holder. **Purchasers of any 2017 Bonds, whether at the time of the initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium.**

No assurance can be given that amendments to the Code or other federal legislation will not be introduced and/or enacted which would cause the interest on the 2017 Bonds to be subject, directly or indirectly, to federal income taxation or adversely affect the market price of the 2017 Bonds or otherwise prevent the holders of the 2017 Bonds from realizing the full current benefit of the federal tax status of the interest thereon.

**State Tax Exemption**

In the opinion of Co-Bond Counsel, under the existing laws of the Commonwealth, the interest on the 2017 Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2017 Bonds or the interest thereon. Profits, gains or income derived from the sale, exchange or other disposition of the 2017 Bonds are subject to state and local taxation within the Commonwealth.

This summary is based on laws, regulations, rulings and decisions now in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary. **Prospective purchasers should consult their tax advisors about the consequences of purchasing or holding the 2017 Bonds.**

See APPENDIX E hereto for the proposed form of the opinions of Co-Bond Counsel.

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## UNDERWRITING

The 2017 Bonds are being purchased by the Underwriters named on the cover page of this Official Statement, for whom PNC Capital Markets LLC is acting as the representative (the "Representative"), subject to certain terms and conditions set forth in a Bond Purchase Agreement between the Authority and the Representative, on behalf of the Underwriters, at a purchase price of $60,564,348.04, which reflects the par amount of the 2017 Bonds, plus original issue premium of $7,902,320.70, less an Underwriters' discount of $247,972.66. The 2017 Bonds are offered for sale to the public at prices set forth on the inside front cover page of this Official Statement. The 2017 Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing 2017 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.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

US Bancorp is the marketing name of U.S. Bancorp and its subsidiaries, including U.S. Bancorp Investments, Inc. ("USBII"), which is serving as an Underwriter for the 2017 Bonds and U.S. Bank National Association ("USBNA"), which is serving as Trustee for the 2017 Bonds.

## FINANCIAL ADVISORS

PFM Financial Advisors LLC of Philadelphia, Pennsylvania and Acacia Financial Group, Inc. of Mount Laurel, New Jersey are acting as co-financial advisors (together, the "Financial Advisors") to the City in connection with the issuance of the 2017 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 2017 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 2017 Bonds from, or base any investment decisions upon, the fact that the Financial Advisors have advised the City with respect to the 2017 Bonds. The Financial Advisors' fees for this issue are contingent upon the sale and issuance of the 2017 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.

## CONTINUING DISCLOSURE UNDERTAKING

In order to assist the Underwriters in complying with the requirements of Rule l5c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the City (i) will enter into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C., as dissemination agent for the benefit of the Registered Owners (as defined in such agreement) of the 2017 Bonds, to be dated the date of original delivery of and payment for the 2017 Bonds, the form of which is annexed hereto as APPENDIX F, and (ii) has provided the disclosure in the following paragraphs.

During the previous five years, the City has failed on occasion to timely file event notices related to certain changes to enhanced ratings assigned to bonds issued by or on behalf of the City (related to changes to the credit quality of banks providing credit and liquidity enhancement or support for certain variable rate bonds). In one other instance, the City timely filed notice of a rating change, but did not associate the notice with all specific relevant outstanding obligations and filed the notice through incorporation by reference of information in an offering document. The foregoing description of instances of non-compliance by the City with its continuing disclosure undertakings should not be construed as an acknowledgement by the City that any such instance was material.

In connection with the continuing disclosure annual filing for Gas Works Revenue Bonds that was made in February 2016, certain annual financial information that should have been included was not filed until August 2016. The late-filed information was required by a continuing disclosure agreement that had been entered into in connection with Gas Works Revenue Bonds that were issued in August 2015. The information that the City filed in February 2016 satisfied all prior continuing disclosure agreements relating to Gas Works Revenue Bonds.

The City has reviewed and updated its disclosure policies and procedures to assist the City in complying with its continuing disclosure undertakings in the future.

## CERTAIN RELATIONSHIPS

Cozen O'Connor provided certain legal services to the City related to the issuance and sale of the 2017 Bonds, and also provides legal services to the City and the Authority in matters unrelated to the issuance and sale of the 2017 Bonds. A member of Cozen O'Connor sits on the board of directors of an affiliate of the Authority.

Ahmad Zaffarese LLC provided certain legal services to the City related to the issuance and sale of the 2017 Bonds, and also provides legal services to the City and the Authority in matters unrelated to the issuance and sale of the 2017 Bonds.

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## MISCELLANEOUS

This Official Statement is made available only in connection with the sale of the 2017 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 2017 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 an integral part of this Official Statement and should be read in their entirety together with the foregoing statements.

The City makes no representations or warranties to investors as to the accuracy or timeliness of any information available on the City's Investor Website, any other websites maintained by the City or the Authority, or any hyperlinks referenced therein.

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

PHILADELPHIA AUTHORITY FOR
INDUSTRIAL DEVELOPMENT

By: /s/ Evelyn F. Smalls
Name: Evelyn F. Smalls
Title: Chairperson

Approved:

THE CITY OF PHILADELPHIA

By: /s/ Rob Dubow
Name: Rob Dubow
Title: Director of Finance

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# APPENDIX A

# GOVERNMENT AND FINANCIAL INFORMATION

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## TABLE OF CONTENTS

**Page**

THE GOVERNMENT OF THE CITY OF PHILADELPHIA

## Introduction

The City of Philadelphia (the "City" or "Philadelphia") is located along the southeastern border of the Commonwealth of Pennsylvania (the "Commonwealth" or "Pennsylvania"). The City is the largest city in the Commonwealth and the sixth largest city in the United States with approximately 1.57 million residents (based on 2016 estimates). The City is also the center of the United States' seventh largest metropolitan statistical area, which is an 11-county area encompassing the City, Camden, NJ, and Wilmington, DE and represents approximately 6.07 million residents (based on 2016 estimates).

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 business and personal services center with strengths in professional services, such as insurance, law, finance, healthcare and higher education, and leisure and hospitality. The cost of living in the City is relatively moderate compared to other major metropolitan areas in the northeast United States. In addition, the City, as one of the country's education centers, offers the business community a large and diverse labor pool.

The University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and La Salle University are certain of the well-known institutions of higher education located in the City. There are also a number of other well-known colleges and universities located near the City, notably including Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University, among others.

The City is a center for health, education, research and science facilities. In the City, there are more than 30 hospitals, including the Children's Hospital of Philadelphia, Hospital of the University of Pennsylvania, Hahnemann University Hospital, Einstein Medical Center-Philadelphia, and Temple University Hospital, among others, and schools of medicine, dentistry, pharmacy, optometry, podiatry, and veterinary medicine.

Tourism is important to the City and is driven by the City's extraordinary historic and cultural assets. The City's Historic District includes Independence Hall, the Liberty Bell, Carpenters' Hall, the Betsy Ross House, and Elfreth's Alley, the nation's oldest residential street. The Parkway District includes the Philadelphia Museum of Art, the Barnes Foundation, and the Rodin Museum. The Avenue of the Arts, located along a mile-long section of South Broad Street between City Hall and Washington Avenue, includes the Kimmel Center, the Academy of Music, and other performing arts venues. All of the foregoing are key tourist attractions in the City.

For more information on the City's demographic and economic resources and economic development initiatives, see APPENDIX B hereto.

## History and Organization

The City was incorporated in 1789 by an Act of the General Assembly of the Commonwealth (the "General Assembly") (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 1682). In 1854, the General Assembly, by an act commonly referred to as the Consolidation Act: (i) made the City's boundaries coterminous with the boundaries of Philadelphia County (the same boundaries that exist today) (the "County"); (ii) abolished all governments within these boundaries other than the City and the County; and (iii) 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, provides that the City performs all functions of county government, and states 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 (First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, Section 17) and adopted by the voters of the City (as amended and supplemented, the "City Charter"). The City Charter provides, among other things, for the election, organization, powers and duties of the legislative branch (the "City Council") and the executive and administrative branch, as well as the basic rules governing the City's fiscal and budgetary matters, contracts, procurement, property, and records. Under Article XII of the City Charter, the School District of Philadelphia (the "School District") operates 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 City Charter, there are two principal governmental entities in the City: (i) the City, which performs municipal and county functions; and (ii) the School District, which has boundaries coterminous with the City and 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 be elected for no more than two successive terms. Each of the seventeen members of 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 City Council. Of the members of City Council, ten are elected from districts and seven are elected at-large. No more than five of the seven at-large candidates for City Council may be nominated by any one party or political body. 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 City Charter, various City ordinances and state and federal statutes, and contractual arrangements with auditees. The City Controller must follow Generally Accepted Government Auditing Standards, established by the federal Government Accountability Office (formerly known as the General Accounting Office), and Generally Accepted Auditing Standards, promulgated by the American Institute of Certified Public Accountants.

The City Controller post-audits and reports on the City's and the School District's Comprehensive Annual Financial Reports ("CAFRs"), 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 City 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.

Under the City Charter, the principal officers of the City's government 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 Director of Commerce (the "Director of Commerce"), the City Representative (the "City Representative"), and the Director of Planning and Development (the "Director of Planning and Development"). Under the City Charter, the Mayor appoints the Managing Director, the Director of Finance, the Director of Commerce, the City Representative, and the Director of Planning and Development. The Mayor, with the advice and consent of a majority of City Council, also appoints the City Solicitor.

The Managing Director, in coordination with the senior officials of City departments and agencies, 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 Director of Planning and Development oversees the Department of Planning and Development, which includes three divisions: (i) the Division of Development Services; (ii) the Division of Planning and Zoning; and (iii) the Division of Housing and Community Development.

The City Solicitor is head of the Law Department and acts as legal advisor to the Mayor, City Council, and all of the agencies of the City government. The City Solicitor is also responsible for: (i) advising on legal matters pertaining to all of the City's contracts and bonds; (ii) assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction in City Council; and (iii) conducting 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, which is established pursuant to the City Charter and is comprised of the President of the Philadelphia Clearing House Association, the Chairman of the Philadelphia Chapter of the Pennsylvania Institute of Certified Public Accountants, and the Dean of the Wharton School of Finance and Commerce of the University of Pennsylvania. Under Mayor Kenney's administration, the Director of Finance is responsible for the financial functions of the City, including: (i) development of the annual operating budget, the capital budget, and capital program; (ii) the City's program for temporary and long-term borrowing; (iii) supervision of the operating budget's execution; (iv) the collection of revenues through the Department of Revenue; (v) the oversight of pension administration as Chairperson of the Board of Pensions and Retirement; and (vi) the supervision of the Office of Property Assessment. 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 Kenney, his Chief of Staff, the Director of Finance, and the City Treasurer.

**James F. Kenney, Mayor**. On November 3, 2015, James F. Kenney was elected as the City's 99th Mayor and was sworn into office on January 4, 2016. Mayor Kenney is a lifelong resident of the City and a graduate of La Salle University. In 1991, Mayor Kenney was elected to serve as a Democratic City Councilman At-Large and was a member of City Council for 23 years.

**Jane Slusser, Chief of Staff**. Ms. Slusser was the campaign manager for Mayor Kenney's mayoral campaign. Previously, Ms. Slusser was Organizing Director at Equality Pennsylvania and led

Human Rights Campaign's Americans for Workplace Opportunity statewide campaign in Pennsylvania. In 2008 and 2012, Ms. Slusser worked on President Obama's campaigns in South Philadelphia and Northeastern Pennsylvania. Ms. Slusser is a graduate of Barnard College.

**Rob Dubow, Director of Finance.** Mr. Dubow has served as Director of Finance since being appointed on January 7, 2008. Prior to that appointment, Mr. Dubow was the Executive Director of PICA. He has also served as Executive Deputy Budget Secretary of the Commonwealth, from 2004 to 2005, and as Budget Director for the City, from 2000 to 2004.

**Rasheia Johnson, City Treasurer.** Ms. Johnson was appointed as City Treasurer on January 19, 2016. Ms. Johnson has over 15 years of experience in government and public finance. In public finance, she has worked in the capacities of investment banker, financial advisor, and issuer officer, including positions at Siebert Brandford Shank, Loop Capital Markets, and Public Financial Management, and as Assistant to the Director of Finance for Debt Management for the City.

**Government Services**

Municipal services provided by the City include: (i) police and fire protection; (ii) health care; (iii) certain welfare programs; (iv) construction and maintenance of local streets, highways, and bridges; (v) trash collection, disposal and recycling; (vi) provision for recreational programs and facilities; (vii) maintenance and operation of the water and wastewater systems (the "Water and Wastewater Systems"); (viii) acquisition and maintenance of City real and personal property, including vehicles; (ix) maintenance of building codes and regulation of licenses and permits; (x) maintenance of records; (xi) collection of taxes and revenues; (xii) purchase of supplies and equipment; (xiii) construction and maintenance of airport facilities (the "Airport System"); and (xiv) maintenance of a prison system. The City maintains enterprise funds – the Water Fund and the Aviation Fund – for each of the Water and Wastewater Systems and the Airport System. For information on the Water and Wastewater Systems, see APPENDIX B – "KEY CITY-RELATED SERVICES AND BUSINESSES – Water and Wastewater." For information on the Airport System, see APPENDIX B – "TRANSPORTATION – Airport 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. For more information on PGW, see "PGW PENSION PLAN," "PGW OTHER POST-EMPLOYMENT BENEFITS," "EXPENDITURES OF THE CITY – PGW Annual Payments," and "LITIGATION – PGW," among others.

**Local Government Agencies**

There are a number of 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*

**Philadelphia Industrial Development Corporation and Philadelphia Authority for Industrial Development**. The Philadelphia Industrial Development Corporation ("PIDC") and the Philadelphia Authority for Industrial Development ("PAID"), along with the City's Commerce Department, coordinate the City's efforts to maintain an attractive business environment, attract new businesses to the City, and retain existing businesses. PIDC manages PAID's activities through a management agreement. Of the 30 members of the board of PIDC, eight are City officers or officials (the Mayor, the Managing Director, the Finance Director, the Commerce Director, the Director of Planning and Development, the City Solicitor, and two members of City Council), nine members are designated by the President of the Chamber of Commerce of Greater Philadelphia (the "Chamber of Commerce"), and the remaining 13 members are jointly designated by the Chamber of Commerce and the Commerce Director. The five-member board of PAID is appointed by the Mayor.

**Philadelphia Municipal Authority**. 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 that is specifically authorized by ordinance of City Council. PMA is governed by a five-member board appointed by City Council from nominations made by the Mayor.

**Philadelphia Energy Authority**. 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. PEA is authorized to participate in projects on behalf of the City, other government agencies, institutions and businesses. 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.

**Philadelphia Redevelopment Authority**. 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. PRA is governed by a five-member board appointed by the Mayor.

**Philadelphia Land Bank**. The Philadelphia Land Bank (the "PLB") was created in December 2013 with a mission to return vacant and tax delinquent property to productive reuse. The PLB is an independent agency formed under the authority of City ordinance and Pennsylvania law. The PLB has an 11-member board of directors, of which five are appointed by the Mayor and five are appointed by City Council. The final board member is appointed by a majority vote of the other board members. The City provides funds for its operations. For more information on the PLB, see APPENDIX B – "ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION – City and Quasi-City Economic Development Agencies – Philadelphia Land Bank."

**Philadelphia Housing Authority**. The Philadelphia Housing Authority (the "PHA") is a public body organized pursuant to the Housing Authorities Law of the Commonwealth and is neither a department nor an agency of the City. PHA 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. PHA is also responsible for administering rental subsidies to landlords who rent their units to housing tenants qualified by PHA for such housing assistance payments. PHA is governed by a nine-member Board of Commissioners, all of whom are appointed by the Mayor with the approval of a majority of the members of City Council. The terms of the Commissioners are concurrent with the term of the appointing Mayor. Two of the members of the Board are required to be PHA residents. For more information on PHA, see APPENDIX B – "ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION – City and Quasi-City Economic Development Agencies – The Philadelphia Housing Authority."

**Hospitals and Higher Education Facilities Authority of Philadelphia**. 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.

**Southeastern Pennsylvania Transportation Authority**. 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. For more information on SEPTA, see "EXPENDITURES OF THE CITY – City Payments to SEPTA" and APPENDIX B – "TRANSPORTATION – Southeastern Pennsylvania Transportation Authority (SEPTA)."

**Pennsylvania 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 Director of Finance is an ex-officio member of the Board with no voting rights. 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. For more information on the Convention Center Authority, see "EXPENDITURES OF THE CITY – City Payments to Convention Center Authority."

**The School District**. The School District was established, pursuant to the First Class City Home Rule Education Act, by the Educational Supplement to the City Charter as a separate and independent home rule school district to provide free public education to the City's residents. Under the City Charter, the School District is governed by the Board of Education of the School District of Philadelphia (the "Board of Education"). During a period of distress following a declaration of financial distress by the Secretary of Education of the Commonwealth, all of the powers and duties of the Board of Education granted under the Public School Code of 1949, as amended (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 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 District was declared distressed by the Secretary of Education of the Commonwealth pursuant to the School Code, effective December 22, 2001, and such declaration continues to be in effect.

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 may not interfere with the regular selection of the members of the Board of Education. The School Code authorizes the School Reform Commission to delegate duties to the Board of Education if it so chooses. There has been no sitting Board of Education for many years. Two of the five members of the School Reform Commission are appointed by the Mayor and three by the Governor of the Commonwealth (the "Governor"), subject to confirmation by the Pennsylvania Senate.

Under the City Charter, the School District's governing body is required to levy taxes annually, within the limits and upon the subjects authorized by the General Assembly or City Council, in amounts sufficient to provide for operating expenses, debt service charges, and for the costs of any other services incidental to the operation of public schools. The School District has no independent power to authorize school taxes. Certain financial information regarding the School District is included in the City's CAFR.

Except during a period of distress following a declaration of financial distress by the Secretary of Education of the Commonwealth, as described above, the Board of Education consists of nine members appointed by the Mayor from a list supplied by an Educational Nominating Panel established in accordance with provisions set forth in the City Charter.

The School District is part of the Commonwealth system of public education. In a number of matters, including the incurrence of short-term and long-term debt, the School District is governed 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. For more information on the School District, see "EXPENDITURES OF THE CITY – City Payments to School District."

*Non-Mayoral-Appointed or Nominated Agencies*

**PICA**. PICA was created by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act") in 1991 to provide financial assistance to cities of the first class, and it continues in existence for a period not exceeding one year after all of its liabilities, including the PICA Bonds (as defined herein), have been fully paid and discharged. The City is the only city of the first class in the Commonwealth. The Governor, 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.

In January 1992, the City and PICA entered into an Intergovernmental Cooperation Agreement (the "PICA Agreement"), pursuant to which PICA agreed to issue bonds from time to time, at the request of the City, for the purpose of funding, among other things, deficits in the General Fund and a debt service reserve. See "DEBT OF THE CITY – PICA Bonds."

Under the PICA Act and for so long as any PICA Bonds are outstanding, the City is required to submit to PICA: (i) a five-year financial plan on an annual basis; and (ii) quarterly financial reports, each as further described below under "DISCUSSION OF FINANCIAL OPERATIONS – Five-Year Plans of the City" and "– Quarterly Reporting to PICA." Under the PICA Act, at such time when no PICA Bonds are outstanding, the City will no longer be required to prepare such annual financial plans or quarterly reports. See "DEBT OF THE CITY – PICA Bonds" for the current final stated maturities of outstanding PICA Bonds.

The PICA Act and the PICA Agreement provide PICA with certain financial and oversight functions. PICA has the power to exercise certain advisory and review procedures with respect to the City's financial affairs, including the power to review and approve the five-year financial plans prepared by the City, and to certify non-compliance by the City with the then-existing five-year plan. PICA is also required to certify non-compliance if, among other things, no approved five-year plan is in place or 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, upon certification by PICA, require the Secretary of the Budget of the Commonwealth to withhold funds due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements, and payments payable to the City by the Commonwealth, including payment of the portion of the PICA Tax, as further described under "DEBT OF THE CITY – PICA Bonds" below, otherwise payable to the City).

**Philadelphia Parking Authority**. The Philadelphia Parking Authority (the "PPA") is responsible for: (i) the construction and operation of parking facilities in the City and at Philadelphia International Airport ("PHL"); and (ii) enforcement of on-street parking regulations. The members of the PPA's board are appointed by the Governor, with certain nominations from the General Assembly. For more information on the PPA, see "REVENUES OF THE CITY – Philadelphia Parking Authority Revenues."

## DISCUSSION OF FINANCIAL OPERATIONS

### Principal Operations

The major financial 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 19 non-major governmental funds. The City operates on a July 1 to June 30 fiscal year ("Fiscal Year") and reports on all the funds of the City, as well as its component units, in the City's CAFR. PMA's and PICA's financial statements are blended with the City's statements. The financial statements for PGW, PRA, the PPA, the School District, the Community College of Philadelphia, the Community Behavioral Health, Inc., the Delaware River Waterfront Corporation, and PAID are presented discretely.

### 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 22 individual governmental funds. The City's CAFRs, including the City's CAFR for Fiscal Year 2016 (the "Fiscal Year 2016 CAFR"), present 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 19 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 CAFRs, including the Fiscal Year 2016 CAFR, as separate financial statements of fiduciary net assets and changes in fiduciary net assets.

See "CITY FINANCES AND FINANCIAL PROCEDURES" for a further description of these governmental, proprietary, and fiduciary funds.

**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 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 the 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 Fiscal Years. If the Mayor disapproves the bills, he must return them to City Council with the reasons for his disapproval at the first meeting thereof held not less than ten days after he receives such bills. If the Mayor does not return the bills within the time required, they become law without his approval. If City Council passes the bills by a vote of two-thirds of all of its members within seven days after the bills have been returned with the Mayor's disapproval, they become law without his approval. While the City Charter requires that City Council adopt the ordinances for the operating and capital budgets at least 30 days before the end of the Fiscal Year, in practice, such ordinances are often adopted after such deadline, but before the end of such Fiscal Year. For example, the City's Fiscal Year 2018 operating budget ordinance was presented to City Council on March 2, 2017, approved by City Council on June 15, 2017, and signed by the Mayor on June 21, 2017. There is no practical consequence to adopting the budget ordinances after the deadline in the City Charter, but before the end of the Fiscal Year.

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. The Capital Program ordinance for Fiscal Years 2018-2023 (the "Adopted Capital Program") was approved by City Council on June 15, 2017, and signed by the Mayor on June 21, 2017.

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.

For information on the City's Fiscal Year 2017 Adopted Budget (as defined below), see "– Summary of Operations" and "– Current Financial Information" herein. For information on the City's Fiscal Year 2018 Adopted Budget (as defined below), see "– Current Financial Information – Fiscal Year 2018 Adopted Budget and Twenty-Sixth Five-Year Plan" herein. For information on the City's capital program, see "CITY CAPITAL PROGRAM" herein.

**Budget Stabilization Reserve**

In April 2011, the City adopted an amendment to the City Charter that established the "Budget Stabilization Reserve." The City Charter provides that the annual operating budget ordinance is required to provide for appropriations to a Budget Stabilization Reserve, to be created and maintained by the Director of Finance as a separate fund, which may not be commingled with any other funds of the City. Appropriations to the Budget Stabilization Reserve are required to be made each Fiscal Year if the projected General Fund balance for the upcoming Fiscal Year equals or exceeds three percent of General Fund appropriations for such Fiscal Year. City Council can appropriate additional amounts to the Budget Stabilization Reserve by ordinance, no later than at the time of passage of the annual operating budget ordinance and only upon recommendation of the Mayor. Total appropriations to the Budget Stabilization Reserve are subject to a limit of five percent of General Fund appropriations. Amounts in the Budget Stabilization Reserve from the prior Fiscal Years, including any investment earnings certified by the Director of Finance, are to remain on deposit therein.

Since the establishment of the Budget Stabilization Reserve, no annual operating budget ordinance has included a provision to fund the Budget Stabilization Reserve because the conditions that would require the funding of such reserve have not been met.

**Annual Financial Reports**

The City is required by the City Charter to issue, within 120 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 Reports"). The Annual Financial Reports, which are released on or about October 28 of each year, are intended to meet these requirements and are unaudited. As described above, the audited financial statements of the City are contained in its CAFR, which is published at a later date. The Annual Financial Reports contain 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. They also contain 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 Reports are also presented. Historically, the results for General Fund fund balance have not materially changed between the Annual Financial Reports and the CAFRs.

The Annual Financial Report for Fiscal Year 2016 was released on October 26, 2016. The Fiscal Year 2016 CAFR was filed with the Municipal Securities Rulemaking Board ("MSRB") on February 24, 2017. See "CITY FINANCES AND FINANCIAL PROCEDURES – Current City Disclosure Practices."

**Five-Year Plans of the City**

The PICA Act requires the City to annually prepare a financial plan that includes projected revenues and expenditures of the principal operating funds of the City for five Fiscal Years consisting of the current Fiscal Year and the subsequent four Fiscal Years. Each five-year plan, which must be approved by PICA, is required to, among other things, eliminate any projected deficits, balance the Fiscal

Year budgets and provide procedures to avoid fiscal emergencies. For information on the Modified Twenty-Fifth Five-Year Plan (as defined below), see "– Current Financial Information – Fiscal Year 2017 Adopted Budget and Modified Twenty-Fifth Five-Year Plan." For information on the Twenty-Sixth Five-Year Plan (as defined below), see "– Current Financial Information – Fiscal Year 2018 Adopted Budget and Twenty-Sixth Five-Year Plan."

**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. Each quarterly report is required to describe actual or current estimates of revenues, expenditures, and cash flows 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.

Under the PICA Agreement, 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 (i.e., a principal operating 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.

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 until it regains compliance with the then-current five-year plan.

PICA last declared a variance in February 2009 and that variance was cured. A failure by the City to explain or remedy a variance would, upon certification by PICA, require the Secretary of the Budget of the Commonwealth to withhold funds due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payments payable to the City by the Commonwealth, including payment of the portion of the PICA Tax, as further described under "DEBT OF THE CITY – PICA Bonds" below, otherwise payable to the City). The City uses its Quarterly City Manager's Reports to satisfy the quarterly reporting requirement to PICA. Such reports are released within 45 days following the end of the applicable quarter and the most recent versions of such reports are available on the City's Investor Website (as defined herein). The most recent Quarterly City Manager's Report is the report for the period ending March 31, 2017, which was released on May 15, 2017 (the "Third Quarter QCMR"). The next Quarterly City Manager's Report will be the report for the period ending June 30, 2017, and is expected to be released on or about August 15, 2017.

**Summary of Operations**

The following table presents the summary of operations for the General Fund for Fiscal Years 2013-2016, budgeted amounts and current estimates for Fiscal Year 2017, and budgeted amounts for Fiscal Year 2018. For a description of the legally enacted basis on which the City's budgetary process accounts for certain transactions, see "CITY FINANCES AND FINANCIAL PROCEDURES – Budgetary Accounting Practices." "Current Estimate," as used in the tables and text below, refers (except as otherwise indicated) to the most recently revised Fiscal Year 2017 estimate, which was published by the City on June 21, 2017, as part of the Twenty-Sixth Five-Year Plan.

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## Table 1
## General Fund
## Summary of Operations (Legal Basis)
## Fiscal Years 2013-2016 (Actual), 2017 (Adopted Budget and Current Estimate), and 2018 (Adopted Budget)
## (Amounts in Millions of USD)[(1), (2)]

| | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Adopted Budget 2017 | Current Estimate 2017 | Adopted Budget 2018 |
|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | |
| Real Property Taxes[(3)] | 540.5 | 526.4 | 536.4 | 571.6 | 594.9 | 583.1 | 651.5 |
| Wage and Earnings Tax | 1,221.5 | 1,261.6 | 1,325.8 | 1,373.0 | 1,418.1 | 1,421.0 | 1,464.6 |
| Net Profits Tax | 19.2 | 16.3 | 21.2 | 25.4 | 24.5 | 29.1 | 29.7 |
| Business Income and Receipts Tax | 450.9 | 461.7 | 438.2 | 474.2 | 441.6 | 435.1 | 489.9 |
| Sales Tax[(4)] | 257.6 | 263.1 | 149.5 | 169.4 | 177.5 | 186.6 | 198.1 |
| Other Taxes[(5)] | 243.7 | 266.9 | 305.9 | 353.0 | 369.1 | 354.1 | 372.2 |
| Philadelphia Beverage Tax[(6)] | 0.0 | 0.0 | 0.0 | 0.0 | 46.2 | 39.7 | 92.4 |
| Total Taxes | 2,733.5 | 2,795.9 | 2,777.0 | 2,966.6 | 3,071.9 | 3,048.7 | 3,298.3 |
| Locally Generated Non-Tax Revenue | 266.2 | 301.8 | 294.4 | 291.0 | 287.3 | 305.1 | 307.1 |
| Revenue from Other Governments | | | | | | | |
| Net PICA Taxes Remitted to the City[(7)] | 314.0 | 318.7 | 346.5 | 383.4 | 384.7 | 394.7 | 419.2 |
| Other Revenue from Other Governments[(8)] | 337.5 | 347.3 | 302.8 | 305.6 | 312.3 | 314.2 | 316.3 |
| Total Revenue from Other Governments | 651.5 | 666.0 | 649.3 | 689.1 | 697.0 | 709.0 | 735.5 |
| Receipts from Other City Funds | 46.8 | 42.0 | 39.0 | 42.3 | 75.6 | 75.4 | 64.2 |
| Total Revenue | 3,698.0 | 3,805.6 | 3,759.8 | 3,989.0 | 4,131.8 | 4,138.2 | 4,405.1 |
| Obligations/Appropriations | | | | | | | |
| Personal Services | 1,362.4 | 1,450.6 | 1,508.7 | 1,562.6 | 1,565.8 | 1,590.8 | 1,628.9 |
| Purchase of Services[(9)] | 757.8 | 787.6 | 810.6 | 822.2 | 896.9 | 887.5 | 935.1 |
| Materials, Supplies and Equipment | 85.4 | 88.8 | 90.6 | 92.1 | 109.1 | 109.1 | 105.7 |
| Employee Benefits | 1,119.1 | 1,194.1 | 1,099.5 | 1,181.3[(12)] | 1,229.8[(13)] | 1,258.6[(14)] | 1,307.8[(15)] |
| Indemnities, Contributions, and Refunds[(10)] | 138.3 | 208.6 | 150.7 | 192.7 | 189.4 | 189.4 | 196.0 |
| City Debt Service[(11)] | 118.9 | 122.5 | 132.0 | 132.1 | 154.0 | 154.0 | 157.3 |
| Payments to Other City Funds | 31.5 | 34.4 | 39.4 | 32.8 | 32.1 | 32.3 | 36.0 |
| Advances & Miscellaneous Payments / Labor Reserve | 0.0 | 0.0 | 0.0 | 0.0 | 10.0 | 0.0 | 20.0[(16)] |
| Advances & Miscellaneous Payments / Federal Funding Reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 50.9[(16)] |
| Total Obligations/Appropriations | 3,613.3 | 3,886.6 | 3,831.5 | 4,015.8 | 4,187.1 | 4,221.7 | 4,437.7 |
| Operating Surplus (Deficit) for the Year | 84.7 | (80.9) | (71.7) | (26.8) | (55.3) | (83.5) | (32.6) |
| Net Adjustments – Prior Year | 25.4 | 26.1 | 21.1 | 23.6 | 19.5 | 23.7 | 19.5 |
| Cumulative Fund Balance Prior Year | 146.8 | 256.9 | 202.1 | 151.5 | 76.1[(17)] | 148.3[(17)] | 88.6 |
| Cumulative Adjusted Year End Fund Balance (Deficit) | 256.9 | 202.1 | 151.5 | 148.3 | 40.3 | 88.6 | 75.5 |

(1) Sources: For Fiscal Years 2013-2016, the City's CAFRs for such Fiscal Years. For Fiscal Year 2017, the Fiscal Year 2017 Adopted Budget and the Twenty-Sixth Five-Year Plan. For Fiscal Year 2018, the Fiscal Year 2018 Adopted Budget and the Twenty-Sixth Five-Year Plan.
(2) Figures may not sum due to rounding.
(3) The amount for Fiscal Year 2013 reflects a 3.6% increase in the Real Estate Tax rate. The amounts for Fiscal Year 2014 and thereafter reflect a reduction in the Real Estate Tax rate, but also an increase in the assessed value of all taxable real property resulting from a citywide property reassessment. See "REVENUES OF THE CITY – Real Property Taxes Assessment and Collection."
(4) The amounts for Fiscal Years 2013-2014 reflect a 1% increase in the City Sales Tax effective October 8, 2009, which expired June 30, 2014. Fiscal Year 2015 figures include remaining 1% City Sales Tax, an additional $15,000,000 for debt service, plus any amounts designated for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."
(5) Includes Amusement Tax, Real Property Transfer Tax, Parking Lot Tax, Smokeless Tobacco Tax and miscellaneous taxes.
(6) The Philadelphia Beverage Tax (as defined herein) taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017. See "REVENUES OF THE CITY – Other Taxes" for a discussion of litigation relating to the Philadelphia Beverage Tax.
(7) For a detailed breakdown of "Net PICA Taxes Remitted to the City," see Table 43. Such figures reflect revenues received by the City from the PICA Tax of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA bonds and PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments. See "DEBT OF THE CITY – PICA Bonds."
(8) For a detailed breakdown of "Other Revenue from Other Governments," see Table 12. "Other Revenue from Other Governments" includes state gaming revenues.
(9) Includes debt service on lease and service agreement financings.
(10) Includes contributions to the School District. See also Table 21 and the accompanying text herein.
(11) Includes debt service on General Obligation Debt (as defined herein) and tax and revenue anticipation notes; excludes debt service on PICA bonds and lease and service agreement financings.
(12) Includes $9.7 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."
(13) Assumes $13.7 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."
(14) Assumes $18.3 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."
(15) Assumes $24.0 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."
(16) The Labor Reserve is set aside for the potential costs of anticipated new labor agreements with certain of the City's municipal unions. See "EXPENDITURES OF THE CITY – Overview of City Employees." The Federal Funding Reserve is set aside to address certain federal funding that may become unavailable as a result of cuts in the federal budget or the implementation of other federal policies that may affect federal funding for the City.
(17) In the Fiscal Year 2017 Adopted Budget, the City estimated that Fiscal Year 2016 would end with a General Fund balance of $76.1 million. In the Fiscal Year 2016 CAFR, the City reported that Fiscal Year 2016 ended with a General Fund balance of $148.3 million and such number has been included in the current estimate for Fiscal Year 2017.

## Current Financial Information

Table 2 below shows General Fund balances for Fiscal Year 2016, budgeted amounts and current estimates for Fiscal Year 2017, and budgeted amounts for Fiscal Year 2018.

**Table 2**
**General Fund – Fund Balance Summary**
**(Amounts in Thousands of USD)[(1)]**

| | Fiscal Year 2016 Actual[(2)] (June 30, 2016) | Fiscal Year 2017 Adopted Budget[(3)] (June 20, 2016) | Fiscal Year 2017 Current Estimate[(4)] (June 21, 2017) | Fiscal Year 2018 Adopted Budget[(5)] (June 21, 2017) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $2,966,648 | $3,071,895[(6)] | $3,048,694[(6)] | $3,298,332[(6)] |
| Locally Generated Non – Tax Revenues | 290,990 | 287,291 | 305,120 | 307,058 |
| Revenue from Other Governments | 689,076 | 697,010 | 708,950 | 735,524 |
| Revenues from Other Funds of City | 42,253 | 75,571 | 75,426 | 64,191 |
| **Total Revenue** | **$3,988,967** | **$4,131,767** | **$4,138,190** | **$4,405,105** |
| **OBLIGATIONS / APPROPRIATIONS** | | | | |
| Personal Services | 1,562,628 | 1,565,831 | 1,590,847 | 1,628,903 |
| Personal Services – Employee Benefits | 1,181,265[(7)] | 1,229,794[(7)] | 1,258,611[(7)] | 1,307,799[(7)] |
| Purchase of Services[(8)] | 822,159 | 896,926 | 887,459 | 935,078 |
| Materials, Supplies, and Equipment | 92,086 | 109,128 | 109,060 | 105,678 |
| Contributions, Indemnities, and Taxes | 192,729 | 189,395 | 189,445 | 196,010 |
| Debt Service[(9)] | 132,089 | 153,950 | 153,950 | 157,322 |
| Payments to Other Funds | 32,839 | 32,064 | 32,278 | 36,026 |
| Advances & Miscellaneous Payments | 0 | 10,000 | 0 | 70,893[(10)] |
| **Total Obligations / Appropriations** | **$4,015,795** | **$4,187,088** | **$4,221,650** | **$4,437,709** |
| **Operating Surplus (Deficit)** | **(26,828)** | **(55,321)** | **(83,460)** | **(32,604)** |
| **OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS** | | | | |
| Net Adjustments – Prior Years | 23,612 | 19,500 | 23,741 | 19,500 |
| Operating Surplus/(Deficit) & Prior Year Adj. | (3,216) | (35,821) | (59,719) | (13,104) |
| Prior Year Fund Balance | 151,531 | 76,103[(11)] | 148,315[(11)] | 88,596 |
| **Year End Fund Balance** | **$148,315** | **$40,282** | **$88,596** | **$75,492** |

(1) Figures may not sum due to rounding.
(2) From the Fiscal Year 2016 CAFR.
(3) From the Fiscal Year 2017 Adopted Budget.
(4) From the Twenty-Sixth Five-Year Plan.
(5) From the Fiscal Year 2018 Adopted Budget.
(6) For Fiscal Year 2017 Adopted Budget, assumes $46.2 million in revenue from the Philadelphia Beverage Tax. For Fiscal Year 2017 Current Estimate, assumes $39.7 million in revenue from such tax. For Fiscal Year 2018 Adopted Budget, assumes $92.4 million in revenue from such tax. The Philadelphia Beverage Tax taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017. See "REVENUES OF THE CITY – Other Taxes" for a discussion of litigation relating to the Philadelphia Beverage Tax.
(7) For Fiscal Year 2016 Actual, includes $9.7 million from City Sales Tax revenues for the Municipal Pension Fund. For Fiscal Year 2017 Adopted Budget, assumes $13.7 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2017 Current Estimate, assumes $18.3 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2018 Adopted Budget, assumes $24.0 million from such tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."
(8) Includes debt service on lease and service agreement financings.
(9) Includes debt service on General Obligation Debt (as defined herein) and tax and revenue anticipation notes; excludes debt service on PICA bonds and lease and service agreement financings.
(10) Includes (i) $20.0 million for the Labor Reserve, which is set aside for the potential costs of anticipated new labor agreements with certain of the City's municipal unions (see "EXPENDITURES OF THE CITY – Overview of City Employees"), and (ii) $50.9 million for the Federal Funding Reserve, which is set aside to address certain federal funding that may become unavailable as a result of cuts in the federal budget or the implementation of other federal policies that may affect federal funding for the City.
(11) In the Fiscal Year 2017 Adopted Budget, the City estimated that Fiscal Year 2016 would end with a General Fund balance of $76.103 million. In the Fiscal Year 2016 CAFR, the City reported that Fiscal Year 2016 ended with a General Fund balance of $148.315 million and such number has been included in the current estimate for Fiscal Year 2017.

***The following discussion of the Fiscal Year 2017 Adopted Budget, the Modified Twenty-Fifth Five-Year Plan, the current estimate for Fiscal Year 2017, the Fiscal Year 2018 Adopted Budget, and the Twenty-Sixth Five-Year Plan, as applicable, is based, in part, on projections and forward-looking statements related to Fiscal Years 2017 and 2018. No assurance can be given that the applicable budget estimates and forward-looking statements will be realized. The accuracy of such budget estimates and forward-looking statements cannot be verified until after the close of the applicable Fiscal Year and the completion of the related audit.***

<u>Fiscal Year 2017 Adopted Budget and Modified Twenty-Fifth Five-Year Plan</u>. On March 3, 2016, Mayor Kenney submitted his proposed Fiscal Year 2017 budget to City Council, along with the proposed five-year plan for Fiscal Years 2017-2021. On June 16, 2016, City Council approved the Fiscal Year 2017 operating budget ordinance, which was signed by the Mayor on June 20, 2016 (the "Fiscal Year 2017 Adopted Budget").

On August 8, 2016, the City submitted to PICA its modified FY 2017-2021 Five Year Financial Plan Per Council Approved Budget (the "Modified Twenty-Fifth Five-Year Plan"). PICA approved the Modified Twenty-Fifth Five-Year Plan on August 31, 2016.

In the Modified Twenty-Fifth Five-Year Plan, the City set forth certain priorities, including: (i) finding efficiencies to stretch taxpayer funds; (ii) increasing collection and revenue efforts; (iii) making investments in children and families; (iv) making investments in the City's workforce; (v) improving public safety; (vi) improving economic opportunities; and (vii) improving the City's neighborhoods.

*Labor Agreements*. The Modified Twenty-Fifth Five-Year Plan provides $30 million for increased labor obligations in Fiscal Year 2017 and $328.4 million through Fiscal Year 2021. In July 2016, a collective bargaining agreement was reached with American Federation of State, County and Municipal Employees District Council 33 ("AFSCME DC 33"), which provides for pension reforms coupled with salary increases, lump sum payments for health care, and a one-time bonus. This collective bargaining agreement was ratified on August 19, 2016. The costs of such agreement, along with the cost of the wage reopener with International Association of Fire Fighters ("IAFF") Local 22, the City's firefighter union, which resulted in a 3.25% wage increase in Fiscal Year 2017, are included within the $328.4 million set-aside. The $328.4 million included in the Modified Twenty-Fifth Five-Year Plan also provides additional resources for compensation changes for other unionized and non-unionized employees.

<u>Fiscal Year 2017 Current Estimate</u>. The current estimate for Fiscal Year 2017 is derived from information included in the Twenty-Sixth Five-Year Plan. In the Twenty-Sixth Five-Year Plan, the City estimates that it will end Fiscal Year 2017 with a General Fund balance (on the legally enacted basis) of approximately $88.6 million. Although such estimated General Fund balance is higher than projected in the Fiscal Year 2017 Adopted Budget, it is still far below levels recommended by government finance experts.

<u>Fiscal Year 2018 Adopted Budget and Twenty-Sixth Five-Year Plan</u>. On March 2, 2017, Mayor Kenney submitted his proposed Fiscal Year 2018 budget to City Council, along with the proposed five-year plan for Fiscal Years 2018-2022. On June 15, 2017, City Council approved the Fiscal Year 2018 operating budget ordinance, which was signed by the Mayor on June 21, 2017 (the "Fiscal Year 2018 Adopted Budget").

On June 19, 2017, the City submitted to PICA its FY 2018-2022 Five Year Financial Plan Per Council Approved Budget (the "Twenty-Sixth Five-Year Plan"). PICA approved the Twenty-Sixth Five-Year Plan on July 18, 2017. PICA staff, in recommending that PICA approve the Twenty-Sixth Five-Year Plan, noted that the revenue and expenditure projections presented in the Twenty-Sixth Five-Year Plan were [quoting from the PICA Act] "based on reasonable and appropriate assumptions and methods of estimation . . . consistently applied." The PICA staff report concluded that "PICA is confident that the [Twenty-Sixth Five-Year Plan] is based on reasonable assumptions, which will ultimately result in positive fund balances over each of the five years presented" in the Twenty-Sixth Five-Year Plan. The PICA report did, however, note that there are certain risk factors present, which include: (i) that the labor reserve of $200 million may not be sufficient if future labor contracts are on parity with the new AFSCME DC 33 contract; (ii) that the Twenty-Sixth Five-Year Plan's projections do not take into account the impact of a recession or the possibility of an economic downturn; (iii) the sensitivity of the projected investment return assumption on pension fund performance; and (iv) the School Reform Commission approval on June 20, 2017 of a three-year contract for the Philadelphia Federation of Teachers, which will cost approximately $395 million through Fiscal Year 2022, the funding for which is not in the City's nor the School District's current budget projections.

In the Twenty-Sixth Five-Year Plan, the City set forth certain priorities, including: (i) protecting the City's most vulnerable populations; (ii) increasing public safety in all neighborhoods; (iii) ensuring City government runs efficiently and effectively; (iv) improving economic opportunities for City residents; (v) making progress on initiatives funded by the Philadelphia Beverage Tax; and (vi) improving the fiscal health of the City with a focus on program-based budgeting and General Fund balance.

For Fiscal Years 2018-2022, the Twenty-Sixth Five-Year Plan projects that the City will end such Fiscal Years with General Fund balances (on the legally enacted basis) of $75.5 million (Fiscal Year 2018), $85.0 million (Fiscal Year 2019), $60.5 million (Fiscal Year 2020), $75.2 million (Fiscal Year 2021), and $123.1 million (Fiscal Year 2022). The City continues to face uncertainty regarding the pace of economic growth. The estimated General Fund balances in Fiscal Years 2018-2022, which are low, could lead to financial risk.

The Twenty-Sixth Five-Year Plan includes (i) a $200.0 million Labor Reserve for potential costs of anticipated new labor agreements with certain of the City's municipal unions (see "EXPENDITURES OF THE CITY – Overview of City Employees"), and (ii) a $274.6 million Federal Funding Reserve to address certain federal funding that may become unavailable as a result of cuts in the federal budget or the implementation of other federal policies that may affect federal funding for the City.

For more information on the City's annual budget process under the City Charter and the five-year financial plans and quarterly reporting required under the PICA Act, see "– Budget Procedure," "– Five-Year Plans of the City," and "– Quarterly Reporting to PICA."

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## 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 Fiscal Year 2016 CAFR and notes therein. The Fiscal Year 2016 CAFR was prepared by the Office of the Director of Finance 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.

### General

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 Income and Receipts Tax ("BIRT"), 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: (i) charges to customers or applicants for goods received, services rendered or privileges provided; (ii) operating grants and contributions; and (iii) 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, Commonwealth, 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 the Department of Human Services ("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 pension plan. For more information on the PGW Pension Plan (as defined herein), see "PGW PENSION PLAN."

- 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 departments of the City.

The City reports on the following major proprietary funds:

- The Water Fund accounts for the activities related to the operation of the Water and Wastewater Systems.

- The Aviation Fund accounts for the activities of the Airport System.

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 revenues of the Aviation Fund are 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 non-operating revenues and expenses.

**Current City Disclosure 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 MSRB as soon as practicable after delivery of such report. For bonds issued in calendar year 2015 and after, the annual filing deadline is February 28; for bonds issued prior to calendar year 2015, the annual filing deadline is 240 days after the end of the respective Fiscal Year, being February 25. The Fiscal Year 2016 CAFR was filed with the MSRB on February 24, 2017, through the MSRB's Electronic Municipal Market Access ("EMMA") system. The Fiscal Year 2016 CAFR is attached hereto as APPENDIX C.

A wide variety of information concerning the City is available from publications and websites of the City and others, including the City's investor information website at http://www.phila.gov/investor (the "City's Investor Website"). Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement.

**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 2016 CAFR. 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 basic financial statements of the City in the Fiscal Year 2016 CAFR.

**Budgetary Accounting Practices**

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles ("GAAP"). In accordance with the City 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. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: (i) personal services; (ii) purchase of services; (iii) materials and supplies; (iv) equipment; (v) contributions, indemnities, and taxes; (vi) debt service; (vii) payments to other funds; and (viii) 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 BIRT. The legal basis recognizes BIRT revenues in the Fiscal Year they are 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. For more information on BIRT, see "REVENUES OF THE CITY – Business Income and Receipts Tax."

## REVENUES OF THE CITY

### General

Prior to 1939, the City relied heavily on the real estate tax as the mainstay of its revenue system. In 1932, the General Assembly adopted an act (commonly referred to as the Sterling Act) under which the City is permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Acting under the Sterling Act and other Pennsylvania legislation, the City has taken various steps over the years to reduce its reliance on real property taxes as a source of income, including: (i) enacting the wage, earnings, and net profits tax in 1939; (ii) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (iii) requiring under the City Charter that the water, sewer, and other utility systems be fully self-sustaining; (iv) enacting the Mercantile License Tax (a gross receipts tax on business done within the City) in 1952, which was replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax (renamed the Business Income and Receipts Tax in May 2012), and (v) enacting the City Sales Tax (as defined herein) for City general revenue purposes effective beginning in Fiscal Year 1992.

### Major Revenue Sources

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table 3 for General Fund tax revenues for Fiscal Years 2013-2016, as well as the budgeted amounts and current estimates for Fiscal Year 2017 and the budgeted amounts for Fiscal Year 2018. The following discussion of the City's revenues does not take into account revenues in the non-debt related funds. The tax rates for Fiscal Years 2013 through 2016 are contained in the Fiscal Year 2016 CAFR.

Table 3 provides a detailed breakdown of the "Total Taxes" line from Table 1 above. Table 3 does not include "Revenues from Other Governments," which consists of "Net PICA Taxes Remitted to the City" and "Other Revenue from Other Governments." "Net PICA Taxes Remitted to the City" is set forth in Table 1 and a detailed breakdown of such revenues is shown in Table 43. "Other Revenue from Other Governments" is set forth in Table 1 and a detailed breakdown of such revenues is shown in Table 12.

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## Table 3
## General Fund Tax Revenues
## Fiscal Years 2013-2016 (Actual), 2017 (Adopted Budget and Current Estimate), and 2018 (Adopted Budget)
## (Amounts in Millions of USD) (1), (2), (3)

| | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Adopted Budget 2017 | Current Estimate 2017 | Adopted Budget 2018 |
|---|---|---|---|---|---|---|---|
| Real Property Taxes(4) | | | | | | | |
| Current | $504.2 | $483.9 | $493.1 | $521.2 | $537.9 | $533.5 | $602.1 |
| Prior | 36.3 | 42.5 | 43.4 | 50.4 | 57.0 | 49.6 | 49.3 |
| Total | $540.5(4) | $526.4 | $536.4 | $571.6 | $594.9 | $583.1 | $651.5 |
| Wage and Earnings Tax(5) | | | | | | | |
| Current | $1,219.5 | $1,255.9 | $1,318.8 | $1,364.6 | $1,411.1 | $1,413.9 | $1,457.4 |
| Prior | 2.0 | 5.7 | 7.1 | 8.4 | 7.0 | 7.0 | 7.2 |
| Total | $1,221.5 | $1,261.6 | $1,325.8 | $1,373.0 | $1,418.1 | $1,421.0 | $1,464.6 |
| Business Taxes | | | | | | | |
| Business Income and Receipts Tax | | | | | | | |
| Current & Prior | $450.9 | $461.7 | $438.2 | $474.2 | $441.6 | $435.1 | $489.9 |
| Net Profits Tax | | | | | | | |
| Current | $17.2 | $13.2 | $14.7 | $23.3 | $21.4 | $26.0 | $26.6 |
| Prior | 1.9 | 3.1 | 6.5 | 2.1 | 3.1 | 3.1 | 3.1 |
| Subtotal Net Profits Tax | $19.2 | $16.3 | $21.2 | $25.4 | $24.5 | $29.1 | $29.7 |
| Total Business and Net Profits Taxes | $470.1 | $478.0 | $459.4 | $499.6 | $466.1 | $464.2 | $519.6 |
| Other Taxes | | | | | | | |
| Sales and Use Tax(6) | $257.6 | $263.1 | $149.5 | $169.4 | $177.5 | $186.6 | $198.1 |
| Amusement Tax | 19.1 | 20.0 | 19.0 | 19.4 | 20.5 | 21.2 | 22.1 |
| Real Property Transfer Tax | 148.0 | 168.1 | 203.4 | 237.3 | 249.6 | 232.9 | 242.9 |
| Parking Taxes | 73.3 | 75.1 | 79.7 | 92.7 | 95.1 | 96.7 | 103.7 |
| Other Taxes | 3.4 | 3.7 | 3.8 | 3.6 | 3.9 | 3.4 | 3.4 |
| Subtotal Other Taxes | $501.3 | $530.0 | $455.4 | $522.4 | $546.6 | $540.7 | $570.3 |
| Philadelphia Beverage Tax(7) | 0.0 | 0.0 | 0.0 | 0.0 | 46.2 | 39.7 | 92.4 |
| TOTAL TAXES | $2,733.5 | $2,795.9 | $2,777.0 | $2,966.6 | $3,071.9 | $3,048.7 | $3,298.3 |

(1) Sources: For Fiscal Years 2013-2016, the City's CAFRs for such Fiscal Years. For Fiscal Year 2017, the Fiscal Year 2017 Adopted Budget and the Twenty-Sixth Five-Year Plan. For Fiscal Year 2018, the Fiscal Year 2018 Adopted Budget.

(2) See Table 7 in the Fiscal Year 2016 CAFR for tax rates.

(3) Figures may not sum due to rounding.

(4) The amount for Fiscal Year 2013 reflects a 3.6% increase in the Real Estate Tax rate. The amounts for Fiscal Year 2014 and thereafter reflect a reduction in the Real Estate Tax rate, but also an increase in the assessed value of all taxable real property resulting from a citywide property reassessment. See "– Real Property Taxes Assessment and Collection."

(5) Does not include the PICA Tax of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA Bonds and PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments. See "DEBT OF THE CITY – PICA Bonds" for a description of the PICA Tax.

(6) The amounts for Fiscal Years 2013-2014 reflect a 1% increase in the City Sales Tax effective October 8, 2009, which expired June 30, 2014. For Fiscal Years 2015-2018, figures include the remaining 1% City Sales Tax, an additional $15,000,000 for debt service, plus any amounts designated for the Municipal Pension Fund. See "– Sales and Use Tax."

(7) The Philadelphia Beverage Tax taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017. See "– Other Taxes" for a discussion of litigation relating to the Philadelphia Beverage Tax.

## Wage, Earnings, and Net Profits Taxes

The largest tax revenue source (comprising more than 45% of all tax revenues in Fiscal Year 2016) 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. The following table sets forth the resident and non-resident wage, earnings and net profits tax rates for Fiscal Years 2013-2018, the annual wage, earnings and net profits tax receipts in Fiscal Years 2013-2016, the budgeted amount and current estimate of such receipts for Fiscal Year 2017, and the budgeted amount of such receipts for Fiscal Year 2018.

**Table 4**
**Summary of Wage, Earnings and Net Profits Tax Rates and Receipts**
**Fiscal Years 2013-2016 (Actual), 2017 (Adopted Budget and Current Estimate), and 2018 (Adopted Budget)**[(1)]

| Fiscal Year | Resident Wage, Earnings and Net Profits Tax Rates[(2)] | 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)[(3)] |
|---|---|---|---|
| 2013 | 3.9280% | 3.4985% | $1,617.2 (Actual) |
| 2014 | 3.9240% | 3.4950% | $1,662.3 (Actual) |
| 2015 | 3.9200% | 3.4915% | $1,755.5 (Actual) |
| 2016 | 3.9102% | 3.4828% | $1,842.9 (Actual) |
| 2017 | 3.9004% | 3.4741% | $1,892.6 (Adopted Budget)<br>$1,910.1 (Current Estimate) |
| 2018 | 3.8907% | 3.4654% | $1,969.5 (Adopted Budget) |

(1) See Table 7 in the Fiscal Year 2016 CAFR for tax rates.
(2) Includes PICA Tax. See "DEBT OF THE CITY – PICA Bonds" for a description of the PICA Tax.
(3) Sources: For Fiscal Years 2013-2016, the City's CAFRs for such Fiscal Years. For Fiscal Year 2017, the Fiscal Year 2017 Adopted Budget and the Twenty-Sixth Five-Year Plan. For Fiscal Year 2018, the Fiscal Year 2018 Adopted Budget.

Commonwealth funding from gaming revenues is mandated by statute to be used to reduce the resident and nonresident wage tax rate. Gaming revenues have averaged approximately $86.3 million in Fiscal Years 2013-2016. For Fiscal Year 2017, the budgeted amount and current estimate of gaming revenues is $86.3 million. For Fiscal Year 2018, the budgeted amount of gaming revenues is $86.3 million. The wage tax rates in such Fiscal Years reflect a rate reduction due to these revenues.

See "– Proposed Tax Rate Changes" for information regarding proposed wage and earnings tax rate reductions commencing in Fiscal Year 2018 under the Twenty-Sixth Five-Year Plan.

In a 2015 decision by the Supreme Court of the United States (*Comptroller of the Treasury of Maryland v. Wynne*, 135 S. Ct. 1787 (2015)), a state's failure to provide certain credits against its personal income tax was held to have violated the dormant Commerce Clause of the United States Constitution. Such personal income tax was applied to income earned outside of the state of residency, and residents were not given a credit for income taxes paid to the state where such income was earned, resulting, in the circumstances presented, in taxing income earned interstate at a rate higher than income earned intrastate. The City does not provide a credit to resident taxpayers against their respective wage, earnings, and net profits tax liabilities for similar taxes paid to another jurisdiction. Over the last two years, the City has paid approximately $350,000 in the aggregate to resident taxpayers in connection with this matter.

**Business Income and Receipts Tax**

In 1984, the Commonwealth passed legislation known as The First Class City Business Tax Reform Act of 1984, authorizing City Council to impose a business tax measured by gross receipts, net income or the combination of the two. The same year, 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 (the "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.

The BIRT allows for particular allocations and tax computations 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 profits tax liability for that tax year.

In November 2011, legislation was enacted to halt a previously enacted program of reducing the gross receipts portion of the BIRT and to commence reductions in the net income portion of the BIRT to take effect in tax year 2014 with changes phasing in through tax year 2023. The following table reflects such changes and provides a summary of BIRT rates for tax years 2012-2023. Future scheduled reductions in the net income portion of the BIRT remain subject to amendment by action of City Council and the Mayor.

**Table 5**
**Summary of Business Income and Receipts Tax Rates**

| Tax Year | Gross Receipts | Net Income |
|---|---|---|
| 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 legislation incorporated several changes intended to help small and medium sized businesses and lower costs associated with starting a new business in order to stimulate new business formation and increase employment in the City, including the following: (i) the Commercial Activity License fee for all businesses was eliminated in 2014; (ii) business taxes for the first two years of operations for all new businesses with at least three employees in their first year and six employees in their second year were eliminated beginning in 2012; and (iii) across the board exclusions on the gross receipts portion of the BIRT were provided for all businesses phased in over a three-year period beginning in 2014 and eventually excluding the first $100,000 of gross receipts, along with proportional reductions in the net income portion of the BIRT. The legislation also provides for implementation of single sales factor apportionment in 2015, which enables businesses to pay BIRT based solely on sales in the City, rather than on property or payroll.

**Real Property Taxes Assessment and Collection**

A tax is levied on the assessed value of all taxable residential and commercial real property located within the City's boundaries (the "Real Estate Tax") as assessed by the Office of Property Assessment ("OPA") and collected by the Department of Revenue. Real Estate Taxes are allocated to the City and the School District with the millage split between the two taxes changing over the years.

Beginning in 2010, the City significantly changed the system used for assessing Real Estate Tax in Philadelphia. On May 18, 2010, Philadelphia voters approved an amendment to the City Charter that split the assessment and appeals functions, moving assessment functions into City government into a new agency, OPA, and creating an independent board of appeals, replacing the Board of Revision of Taxes ("BRT"), which previously combined both functions. OPA formally took over responsibility for assessments in October 2010. However, the Pennsylvania Supreme Court ruled on September 20, 2010, that without an amendment to state law, the City did not have the authority to replace the BRT in its capacity as an existing appeals board. Therefore, the BRT remains in place as the property assessment appeals board; but the separation of the appeals function from the assessment function, which removed an inherent conflict and was a key goal of the legislation, remains in place. The BRT is an independent, seven-member board appointed by the Board of Judges of the Philadelphia Common Pleas Court.

For tax year 2014, under the Actual Value Initiative ("AVI"), all 579,000 properties in Philadelphia were reassessed at their actual market value by OPA, replacing outdated values and inequities within the system. As the new total assessed value of all properties more accurately reflected the market in Philadelphia, the total assessment grew substantially. As a result, the Mayor and City Council significantly reduced the tax rate to ensure that the reassessment resulted in the collection of approximately the same amount of current year revenue as the prior year (the rates are shown in Table 6 below). Moreover, in order to make the tax bills more understandable, AVI removed the complicated fractional system. Prior to AVI, tax bills were calculated by multiplying the certified market value by an established predetermined ratio ("EPR") multiplied by the tax rate. The last applicable EPR was 32%.

The changes in the system had implications for most property owners in the City. 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 saw relatively smaller increases in assessments and when those assessment changes were coupled with the much lower Real Estate Tax rate, they produced tax decreases. On the other hand, properties that were relatively undervalued saw tax increases, a small number of which were substantial.

In order to mitigate the hardship that could be created by those large increases, the ordinance imposing the new Real Estate Tax rates included a homestead exemption of $30,000 for all primary residential owner-occupants. Alternative programs are also available to reduce Real Estate Tax bills for homeowners, including the Longtime Owner-Occupant Program (LOOP) to provide relief to longtime owners with large increases and the ten-year tax abatement. In addition to the homestead exemption, the City has also instituted several other property tax relief programs for taxpayers.

The Real Estate Tax rates for tax years 2012-2018 are set forth in Table 6 below:

**Table 6**
**Real Estate Tax Rates and Allocations**

| Tax Year | City | School District | Total |
|---|---|---|---|
| 2012 | 4.1230% | 5.3090% | 9.4320% |
| 2013 | 4.4620% | 5.3090% | 9.7710% |
| 2014(1) | 0.6018% | 0.7382% | 1.3400% |
| 2015(1) | 0.6018% | 0.7382% | 1.3400% |
| 2016(1) | 0.6317% | 0.7681% | 1.3998% |
| 2017(1) | 0.6317% | 0.7681% | 1.3998% |
| 2018(1) | 0.6317% | 0.7681% | 1.3998% |

(1) The reduction of the Real Estate Tax rates from tax year 2013 to tax year 2014 and succeeding tax years reflects the City's Actual Value Initiative.

For Fiscal Year 2015, the actual amount of Real Estate Tax revenue for the City was $493.1 million (excluding delinquent collections). For Fiscal Year 2016, the actual amount of Real Estate Tax revenue for the City was $521.2 million (excluding delinquent collections). For Fiscal Year 2017, the current estimate of Real Estate Tax revenue for the City is $533.5 million (excluding delinquent collections). For Fiscal Year 2018, the budgeted amount of Real Estate Tax revenue for the City is $602.1 million (excluding delinquent collections). See Table 3 above. Real Estate Tax bills are sent in December for the following year and payments are due March 31. A discount of 1% is available for taxpayers who pay their Real Estate Taxes on or before the last day of February.

Table 7 shows the assessed values of properties used for tax year 2016 and 2017 Real Estate Taxes (both of which reflect the effect of AVI). Under AVI, the OPA certifies the market values by March 31 of the prior year (that is, for tax year 2016, the OPA certified the market values on March 31, 2015). Taxpayers base their appeals on the certified market values, and therefore, the assessed values are adjusted as the appeals are finalized. For budgetary purposes, the OPA provides an updated table to the Office of the Director of Finance in December, from which tax rates are proposed.

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## Table 7
## Certified Property Values for Tax Years 2016 and 2017

**Tax Year 2016***

| Category | Tax Status | Assessed Value | Taxable Assessed Value | Exempt Assessed Value | Number of Parcels |
|---|---|---|---|---|---|
| Residential | Fully Taxable | $26,264,061,193 | $26,264,061,193 | $0 | 227,060 |
| Residential | Abatement | 8,297,419,600 | 2,773,190,544 | 5,524,229,056 | 31,295 |
| Residential | Exemption | 32,665,233,808 | 25,863,433,627 | 6,801,800,181 | 214,564 |
| **Total** | | **$67,226,714,601** | **$54,900,685,364** | **$12,326,029,237** | **472,919** |
| | | | | | |
| Hotels and Apartments | Fully Taxable | $11,097,523,000 | $11,097,523,000 | $0 | 21,864 |
| Hotels and Apartments | Abatement | 2,519,189,900 | 803,639,111 | 1,715,550,789 | 1,326 |
| Hotels and Apartments | Exemption | 3,118,605,200 | 913,756,282 | 2,204,848,918 | 4,017 |
| **Total** | | **$16,735,318,100** | **$12,814,918,393** | **$3,920,399,707** | **27,207** |
| | | | | | |
| Store with Dwelling | Fully Taxable | $2,710,425,800 | $2,710,425,800 | $0 | 12,722 |
| Store with Dwelling | Abatement | 248,270,600 | 135,312,637 | 112,957,963 | 760 |
| Store with Dwelling | Exemption | 273,755,100 | 215,685,182 | 58,069,918 | 1,281 |
| **Total** | | **$3,232,451,500** | **$3,061,423,619** | **$171,027,881** | **14,763** |
| | | | | | |
| Commercial | Fully Taxable | $15,061,397,900 | $15,061,397,900 | $0 | 10,020 |
| Commercial | Abatement | 1,710,678,900 | 841,467,004 | 869,211,896 | 400 |
| Commercial | Exemption | 25,401,030,100 | 529,930,868 | 24,871,099,232 | 4,394 |
| **Total** | | **$42,173,106,900** | **$16,432,795,772** | **$25,740,311,128** | **14,814** |
| | | | | | |
| Industrial | Fully Taxable | $2,781,476,200 | $2,781,476,200 | $0 | 4,129 |
| Industrial | Abatement | 127,442,100 | 50,481,990 | 76,960,110 | 60 |
| Industrial | Exemption | 553,087,800 | 27,130,885 | 525,956,915 | 238 |
| **Total** | | **$3,462,006,100** | **$2,859,089,075** | **$602,917,025** | **4,427** |
| | | | | | |
| Vacant Land | Fully Taxable | $1,447,838,635 | $1,447,838,635 | $0 | 33,302 |
| Vacant Land | Abatement | 32,505,900 | 2,054,545 | 30,451,355 | 47 |
| Vacant Land | Exemption | 1,985,521,500 | 17,718,350 | 1,967,803,150 | 12,057 |
| **Total** | | **$3,465,866,035** | **$1,467,611,530** | **$1,998,254,505** | **45,406** |
| | | | | | |
| **Grand Total** | | **$136,295,463,236** | **$91,536,523,753** | **$44,758,939,483** | **579,536** |

* Certified Market Value as of 3/31/2015.

**Tax Year 2017***

| Category | Tax Status | Assessed Value | Taxable Assessed Value | Exempt Assessed Value | Number of Parcels |
|---|---|---|---|---|---|
| Residential | Fully Taxable | $27,239,032,724 | $27,239,032,724 | $0 | 227,596 |
| Residential | Abatement | 5,656,888,300 | 1,584,639,283 | 4,072,249,017 | 13,906 |
| Residential | Exemption | 35,439,456,377 | 27,462,644,199 | 7,976,812,178 | 231,790 |
| **Total** | | **$68,335,377,401** | **$56,286,316,206** | **$12,049,061,195** | **473,292** |
| | | | | | |
| Hotels and Apartments | Fully Taxable | $11,309,938,300 | $11,309,938,300 | $0 | 21,819 |
| Hotels and Apartments | Abatement | 2,732,361,800 | 781,802,004 | 1,950,559,796 | 768 |
| Hotels and Apartments | Exemption | 3,144,407,300 | 1,009,817,435 | 2,134,589,865 | 4,629 |
| Total | | **$17,186,707,400** | **$13,101,557,739** | **$4,085,149,661** | **27,216** |
| | | | | | |
| Store with Dwelling | Fully Taxable | $2,654,179,000 | $2,654,179,000 | $0 | 12,611 |
| Store with Dwelling | Abatement | 113,049,600 | 49,070,436 | 63,979,164 | 211 |
| Store with Dwelling | Exemption | 410,214,200 | 295,454,160 | 114,760,040 | 1,830 |
| **Total** | | **$3,177,442,800** | **$2,998,703,596** | **$178,739,204** | **14,652** |
| | | | | | |
| Commercial | Fully Taxable | $13,987,005,400 | $13,987,005,400 | $0 | 9,873 |
| Commercial | Abatement | 2,474,106,400 | 787,638,368 | 1,686,468,032 | 426 |
| Commercial | Exemption | 24,712,736,300 | 430,585,920 | 24,282,150,380 | 4,358 |
| **Total** | | **$41,173,848,100** | **$15,205,229,688** | **$25,968,618,412** | **14,657** |
| | | | | | |
| Industrial | Fully Taxable | $2,654,419,300 | $2,654,419,300 | $0 | 3,960 |
| Industrial | Abatement | 292,220,700 | 49,509,849 | 242,710,851 | 107 |
| Industrial | Exemption | 499,667,800 | 28,545,270 | 471,122,530 | 291 |
| **Total** | | **$3,446,307,800** | **$2,732,474,419** | **$713,833,381** | **4,358** |
| | | | | | |
| Vacant Land | Fully Taxable | $1,397,808,735 | $1,397,808,735 | $0 | 33,804 |
| Vacant Land | Abatement | 42,839,500 | 117,908 | 42,721,592 | 35 |
| Vacant Land | Exemption | 1,921,166,000 | 18,996,099 | 1,902,169,901 | 11,898 |
| **Total** | | **$3,361,814,235** | **$1,416,922,742** | **$1,944,891,493** | **45,737** |
| | | | | | |
| **Grand Total** | | **$136,681,497,736**** | **$91,741,204,390** | **$44,940,293,346** | **579,912** |

* Certified Market Value as of 3/31/2016
** Based on revised market values for tax year 2017, as of 4/11/2017, the revised assessed value is $138,276,358,121 (based on 581,919 parcels).

As part of the transition to the new assessment system, OPA set up a new process called a first level review, where a taxpayer could request an administrative review of its assessment notice prior to launching a formal appeal with the BRT. The BRT has the authority, following a formal appeal, to either 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.

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 permits such adjustment for the reassessment year and the two years thereafter. 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.

In 2014, City Council passed legislation intended to ease the transition to AVI, which provided, 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 Real Estate Tax and (if applicable) use and occupancy tax, pending the assessment appeal. Interest and penalties would not accrue on the additional 2014 tax liability during the appeal, whether or not the appeal is ultimately successful.

For tax year 2017, OPA conducted reassessments on certain residential properties and on vacant land parcels not currently being used for commercial purposes. For tax year 2018, OPA conducted reassessments on commercial, industrial, and institutionally-owned parcels. OPA plans to conduct a comprehensive reassessment of all properties in the City for tax year 2019 and each year thereafter.

Since 2010, the City has pursued a number of initiatives to improve the collection of Real Estate Taxes, including (i) prompt correspondence with taxpayers with overdue Real Estate Taxes, (ii) using outside collection firms to collect overdue Real Estate Taxes, (iii) sequestration of delinquent properties occupied by commercial tenants, and (iv) tax lien sales. The City's current estimated Real Estate Tax collection rate for tax year 2017 is 93.9%.

See Table 8 below for data with respect to Real Estate Taxes levied from 2012 to 2016 and collected by the City from January 1, 2012 to June 30, 2016. See Table 9 for the assessed property values of the City's principal taxable assessed parcels in 2016. See Table 10 for the 2016 market and assessed values of the ten highest valued taxable real properties in the City, as well as the amounts and duration of Real Estate Tax abatements with respect to such properties.

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## Table 8
## City of Philadelphia
## Real Property Taxes Levied and Collected
## For the Calendar Years 2012-2016
## (Amounts in Millions of USD)[1], [2]

| Calendar Year | Taxes Levied Based on Original Assessment[3] | Taxes Levied Based on Adjusted Assessment[4] | Collections in the Calendar Year of Levy[6] | Percentage Collected in the Calendar Year of Levy | Collections in Subsequent Years[5], [6] | Total Collections to Date: All Years[6] | Percentage Collected to Date: All Years[6] |
|---|---|---|---|---|---|---|---|
| 2012 | $508.6 | $491.1 | $459.2 | 93.5% | $22.7 | $481.9 | 98.1% |
| 2013 | $554.0 | $537.7 | $505.6 | 94.0% | $22.8 | $528.4 | 98.3% |
| 2014 | $553.2 | $515.4 | $482.1 | 93.5% | $21.2 | $503.3 | 97.7% |
| 2015 | $547.4 | $519.1 | $489.1 | 94.2% | $10.9 | $500.0 | 96.3% |
| 2016 | $569.9 | $552.7 | $502.6 | 90.9% | N/A | $502.6 | 90.9% |

(1) Source: Fiscal Year 2016 CAFR.

(2) 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.

(3) Taxes are levied on a calendar year basis. They are due on March 31.

(4) Adjustments include assessment appeals, a 1% discount for payment in full by February 28, the senior citizen tax discount, and the tax increment financing return of tax paid.

(5) Includes payments from capitalization charges. This capitalization occurs one time, after the end of the first year of the levy, on any unpaid balances.

(6) For calendar year 2016, the data shown reflects collections through June 30, 2016. For earlier calendar years, the data shown reflects collections through December 31 of the respective year.

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**Table 9**
**Principal Taxable Assessed Parcels – 2016**
**(Amounts in Millions of USD) (1)**

| Taxpayer | 2016 Assessment(2) | 2016 Percentage of Total Assessments |
|---|---|---|
| HUB Properties Trust | $265.7 | 0.29% |
| Nine Penn Center Associates | 232.6 | 0.25 |
| Phila Liberty Place ELP | 207.7 | 0.23 |
| Philadelphia Market Street | 203.7 | 0.22 |
| Tenet Health Systems Hahnemann | 192.1 | 0.21 |
| Commerce Square Partners | 178.2 | 0.19 |
| Maguire / Thomas | 170.1 | 0.19 |
| NNN 1818 Market Street 37 | 170.0 | 0.19 |
| Franklin Mills Associates | 163.2 | 0.18 |
| Brandywine Cira | 160.7(3) | 0.18 |
| Total | $1,944.0 | 2.12% |
| Total Taxable Assessments(4) | $91,536.5 | |

Source: City of Philadelphia, Office of Property Assessment.

(1) Figures may not sum due to rounding.
(2) 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.
(3) Brandywine Cira was made fully taxable in error for tax year 2016, which was corrected after March 31, 2015. Following such correction, Brandywine Cira was assessed at $159.4 million.
(4) Total 2016 Taxable Assessment as of March 31, 2015.

**Table 10**
**Ten Largest Certified Market and Assessment Values of Tax-Abated Properties**
**Certified Values for 2016**
**(Amounts in Millions of USD)**

| Location | 2016 Certified Market Value | Total Assessment | Total Taxable Assessment | Total Exempt Assessment | Exempt Through Tax Year |
|---|---|---|---|---|---|
| 1701 John F Kennedy Blvd. | $212.5 | $212.5 | $9.1 | $203.4 | 2017 |
| 1001 N Delaware Ave. | $150.9 | $150.9 | $39.3 | $111.6 | 2020 |
| 1500-30 Spring Garden St. | $138.7 | $138.7 | $78.4 | $60.3 | 2020 |
| 2116 Chestnut St. | $72.5 | $72.5 | $1.4 | $71.1 | 2023 |
| 2323 Race St. | $72.4 | $72.4 | $2.8 | $69.5 | 2016 |
| 2026-58 Market St. | $65.0 | $65.0 | $8.4 | $56.6 | 2023 |
| 1601 N 15th St. | $64.2 | $64.2 | $0.5 | $63.7 | 2017 |
| 233-43 S Broad St. | $62.4 | $62.4 | $56.1 | $6.3 | 2023 |
| 3401 Chestnut St. | $61.2 | $64.6 | $0.0 | $61.2 | 2017 |
| 907-37 Market St. | $61.0 | $61.0 | $41.4 | $19.6 | 2016 |

Source: City of Philadelphia, Office of Property Assessment.

**Sales and Use Tax**

Pursuant to the authorization granted by the Commonwealth under the PICA Act, the City adopted a 1% sales and use tax (the "City Sales Tax") for City general revenue purposes effective beginning in Fiscal Year 1992. It is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. Vendors are required to pay City Sales Taxes to the Commonwealth Department of Revenue together with the Commonwealth sales and use tax. The State Treasurer deposits the collections of City Sales Taxes 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's budgets for Fiscal Years 2010-2014 provided for an increase in the City Sales Tax rate to 2%, as authorized by the Commonwealth effective October 8, 2009, through June 30, 2014. In July 2013, the Commonwealth authorized the implementation of a new, permanent 1% increase in the City Sales Tax rate effective July 1, 2014, which was adopted by the City on June 12, 2014 and became effective on July 1, 2014. Under the reauthorized City Sales Tax, the first $120 million collected from such additional 1% is distributed to the School District. For Fiscal Years 2015-2018, the General Assembly has also authorized the City to use the next $15 million of City Sales Tax revenues from such additional 1% collected in such Fiscal Years for the payment of debt service on obligations issued by the City for the benefit of the School District. Following any such debt service payments, that remaining portion of the City Sales Tax revenues from such additional 1% distributed to the City is required to be used exclusively in accordance with Act 205 (as defined herein) and deposited to the Municipal Pension Fund.

In October 2014, the City, through PAID, issued $57.5 million in bonds to fund a portion of the School District's operating deficit for Fiscal Year 2015 and refund certain outstanding bonds that funded a portion of the Fiscal Year 2014 operating deficit. The debt service on such bonds is approximately $15 million annually through Fiscal Year 2018 and the City expects to continue paying its obligations with respect to such bonds with a combination of proceeds from the City Sales Tax revenues and other General Fund revenues. Such City Sales Tax revenues are not pledged to the holders of such bonds. Such funding by the City of a portion of the School District's operating deficits for Fiscal Years 2014-2015, and the related payment of debt service, does not require a comparable increase in grants by the City to the School District in subsequent Fiscal Years. See "EXPENDITURES OF THE CITY – City Payments to School District" and the paragraphs that follow Table 21.

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The following table sets forth the City Sales Taxes collected in Fiscal Years 2013-2016, the budgeted amount and current estimate for Fiscal Year 2017, and the budgeted amount for Fiscal Year 2018.

**Table 11**
**Summary of City Sales Tax Collections**
**Fiscal Years 2013-2016 (Actual), 2017 (Adopted Budget and Current Estimate), and 2018 (Adopted Budget)**
**(Amounts in Millions of USD)[(1)]**

| Fiscal Year | City Sales Tax Collections |
|---|---|
| 2013 (Actual) | $257.6 |
| 2014 (Actual) | $263.1 |
| 2015 (Actual) | $149.5[(2)] |
| 2016 (Actual) | $169.4[(2)] |
| 2017 (Adopted Budget) | $177.5[(2)] |
| 2017 (Current Estimate) | $186.6[(2)] |
| 2018 (Adopted Budget) | $198.1[(2)] |

(1) Sources: For Fiscal Years 2013-2016, the City's CAFRs for such Fiscal Years. For Fiscal Year 2017, the Fiscal Year 2017 Adopted Budget and the Twenty-Sixth Five-Year Plan. For Fiscal Year 2018, the Fiscal Year 2018 Adopted Budget.
(2) Net collections estimated to be distributed to the City from the first 1% City Sales Tax and following the distribution of $120 million of revenues from the second 1% City Sales Tax to the School District, as described above.

### Other Taxes

The City also collects real property transfer taxes, parking taxes, an amusement tax, a valet parking tax, an outdoor advertising tax, a smokeless tobacco tax, the Philadelphia Beverage Tax (see below), and other miscellaneous taxes.

In June 2016, City Council passed the Philadelphia Beverage Tax (Chapter 19-4100 of the Philadelphia Code) (the "Philadelphia Beverage Tax"). On October 31, 2016, the Department of Revenue adopted regulations for the Philadelphia Beverage Tax. The Philadelphia Beverage Tax taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017.

The Philadelphia Beverage Tax is providing funding for pre-kindergarten, community schools, and improvements to parks, recreational centers, and libraries. For Fiscal Years 2017-2022, the City projects it will collect approximately (i) $39.7 million (Fiscal Year 2017), (ii) $92.4 million (Fiscal Year 2018), (iii) $92.5 million (Fiscal Year 2019), (iv) $92.6 million (Fiscal Year 2020), (v) $92.1 million (Fiscal Year 2021), and (vi) $91.7 million (Fiscal Year 2022) in revenues from the Philadelphia Beverage Tax in such Fiscal Years.

On September 14, 2016, a lawsuit challenging the Philadelphia Beverage Tax was filed by the American Beverage Association and other co-plaintiffs in the Philadelphia Court of Common Pleas – Trial Division – Civil. On December 19, 2016, the Court of Common Pleas dismissed the complaint in its entirety. The plaintiffs appealed this ruling. On June 14, 2017, the Commonwealth Court of Pennsylvania, which is one of the Commonwealth's intermediate appellate courts, upheld the decision of the Court of Common Pleas. The plaintiffs have petitioned the Pennsylvania Supreme Court to review this decision. The decision to grant or deny any such petition is at the discretion of the Pennsylvania Supreme Court. Such petition is pending. For more general information on judgments and settlements on claims against the City, see "LITIGATION."

### Improved Collection Initiative

The City is pursuing a multifaceted strategy designed to improve collections of various taxes while decreasing delinquencies. Key compliance strategies continue to include revocation of commercial licenses and sequestration and tax lien sales, among others.

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

The following table presents revenues received from other governmental jurisdictions for Fiscal Years 2013-2016, the budgeted amounts and current estimate for Fiscal Year 2017, the budgeted amounts for Fiscal Year 2018, and the percentage such revenues represent in the General Fund. The table does not reflect 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.

**Table 12**
**Revenue from Other Governmental Jurisdictions**
**Fiscal Years 2013-2016 (Actual), 2017 (Adopted Budget and Current Estimate), and 2018 (Adopted Budget)**
**(Dollar Amounts in Millions of USD)(1), (2), (3)**

| Fiscal Year | Commonwealth(4) | Federal Government | Other Governments(5) | Total | Percentage of General Fund Revenues |
|---|---|---|---|---|---|
| 2013 (Actual) | $233.6 | $39.7 | $64.2 | $337.5 | 9.1% |
| 2014 (Actual) | $255.3 | $31.0 | $61.0 | $347.3 | 9.1% |
| 2015 (Actual) | $212.7 | $30.1 | $60.0 | $302.8 | 8.1% |
| 2016 (Actual) | $223.7 | $29.7 | $52.3 | $305.6 | 7.7% |
| 2017 (Adopted Budget) | $220.8 | $31.4 | $60.1 | $312.3 | 7.6% |
| 2017 (Current Estimate) | $219.4 | $38.1 | $56.7 | $314.2 | 7.6% |
| 2018 (Adopted Budget) | $221.4 | $35.6 | $59.3 | $316.3 | 7.2% |

(1) Sources: For Fiscal Years 2013-2016, the City's CAFRs for such Fiscal Years. For Fiscal Year 2017, the Fiscal Year 2017 Adopted Budget and the Twenty-Sixth Five-Year Plan. For Fiscal Year 2018, the Twenty-Sixth Five-Year Plan.
(2) Figures may not sum due to rounding.
(3) Does not include the PICA Tax.
(4) Such revenues are for health, welfare, court, and various other specified purposes.
(5) Such revenues primarily consist of payments from PGW, parking fines and fees from PPA, and other authorized adjustments.

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**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 only in a limited amount and upon satisfaction of certain other conditions.

Water Fund. The revenues of the Philadelphia Water Department (the "Water Department") are 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 (i) all Net Reserve Earnings and (ii) $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, each as defined in the Water Ordinance. The following table shows the amounts transferred from the Water Fund to the General Fund for Fiscal Years 2013-2016, the budgeted amount and current estimate for Fiscal Year 2017, and the budgeted amounts for Fiscal Year 2018.

**Table 13**
**Transfers from Water Fund to General Fund (Excess Interest on Sinking Fund Reserve)**
**Fiscal Years 2013-2016 (Actual), 2017 (Adopted Budget and Current Estimate), and 2018 (Adopted Budget)[(1)]**

| Fiscal Year | Amount Transferred |
|---|---|
| 2013 (Actual) | $560,156 |
| 2014 (Actual) | $400,364 |
| 2015 (Actual) | $745,585 |
| 2016 (Actual) | $1,555,702 |
| 2017 (Adopted Budget and Current Estimate) | $900,000[(2)] |
| 2018 (Adopted Budget) | $1,000,000[(2)] |

(1) Sources: For Fiscal Years 2013-2016, the City's Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Year 2017, the Fiscal Year 2017 Adopted Budget and the Twenty-Sixth Five-Year Plan. For Fiscal Year 2018, the Fiscal Year 2018 Adopted Budget.

(2) For Fiscal Years 2017 and 2018, the Water Department has budgeted $1,200,000 and $1,500,000, respectively, as its transfer from the Water Fund to the General Fund. Historically, the Water Department's budgeted amount is greater than the figure included in the City's operating budget.

PGW. The revenues of PGW are required to be segregated from other funds of the City. Payments for debt service on PGW bonds are made directly by PGW. PGW is required to make an annual payment of $18 million to the General Fund. Both the Fiscal Year 2017 Adopted Budget and the Fiscal Year 2018 Adopted Budget include such $18 million annual payment to the General Fund from PGW for such Fiscal Years. In certain past Fiscal Years, the City granted back to PGW such annual payments. For more information on PGW, see "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services."

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**Philadelphia Parking Authority Revenues**

The 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 PHL, and to administer the City's on-street parking program.

PPA owns and operates five parking garages and a number of surface parking lots at PHL. The land on which these garages and surface lots are located is leased from the City, acting through the 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 PHL and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its operations at PHL, if any.

One component of the operating expenses is PPA's administrative costs. In 1999, at the request of the 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 locations in the City in addition to those at PHL. 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.

On-street parking revenues are administered and collected on behalf of the City by the PPA. Pursuant to Pennsylvania law, 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 accordance 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. Pursuant to Act 84 of 2012, the effect of which commenced in Fiscal Year 2015, the threshold, which was previously set at $25 million, was set at $35 million, including a mandatory escalator to take into account increases in revenues. The following table presents payments received by the City from PPA for on-street parking for Fiscal Years 2013-2016, the budgeted amount and current estimate for Fiscal Year 2017, and the budgeted amount for Fiscal Year 2018.

**Table 14**
**PPA On-Street Parking Payments to the City**
**Fiscal Years 2013-2016 (Actual), 2017 (Adopted Budget and Current Estimate), and 2018 (Adopted Budget)[(1)]**

| Fiscal Year | Payments to the City |
|---|---|
| 2013 (Actual) | $36.5 |
| 2014 (Actual) | $37.7 |
| 2015 (Actual) | $38.1 |
| 2016 (Actual) | $33.7 |
| 2017 (Adopted Budget) | $39.6 |
| 2017 (Current Estimate) | $38.1 |
| 2018 (Adopted Budget) | $38.8 |

(1) Sources: For Fiscal Years 2013-2016, the City's Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Years 2017-2018, the Twenty-Sixth Five-Year Plan and the Fiscal Year 2018 Adopted Budget.

**Proposed Tax Rate Changes**

The Twenty-Sixth Five-Year Plan includes reductions in both the resident and non-resident wage and earnings tax, which resumed in Fiscal Year 2014 after being suspended during the national economic downturn. The following table details rates under the Twenty-Sixth Five-Year Plan.

**Table 15**
**Changes in Wage and Earnings Tax Rates**[1]

| | Twenty-Sixth Five-Year Plan | |
|---|---|---|
| Fiscal Year | Resident Wage and Earnings Tax Rates[2] | Non-Resident Wage and Earnings Tax Rates |
| 2017 | 3.9004% | 3.4741% |
| 2018 | 3.8907% | 3.4654% |
| 2019 | 3.8420% | 3.4221% |
| 2020 | 3.7844% | 3.3707% |
| 2021 | 3.7276% | 3.3202% |
| 2022 | 3.6997% | 3.2953% |

(1) Source: The Twenty-Sixth Five-Year Plan.
(2) Includes PICA Tax. See "DEBT OF THE CITY – PICA Bonds" for a description of the PICA Tax.

Under the Twenty-Sixth Five-Year Plan, receipts from the Wage and Earnings Tax are estimated to grow at a rate of 3.68% in Fiscal Year 2017, 3.41% in Fiscal Year 2018, 3.78% in Fiscal Year 2019, 3.62% in Fiscal Year 2020, 3.56% in Fiscal Year 2021, and 3.59% in Fiscal Year 2022.

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## EXPENDITURES OF THE CITY

Three of the principal City expenditures are for personal services (including pensions and other employee benefits), purchase of services (including payments to SEPTA), and debt service. The expenditures for personal services and purchase of services are addressed below under this caption; debt service is addressed below under "DEBT OF THE CITY."

### Personal Services (Personnel)

As of June 30, 2016, the City employed 27,042 full-time employees, representing approximately 3.89% of non-farm public and private employment in the City (approximately 694,900 employees, according to non-seasonally adjusted data from the Bureau of Labor Statistics). Of these full-time public employees, the salaries of 21,427 were paid from the General Fund. Additional sources of funding for full-time public employees include the Grants Revenue Fund, the Water Fund, and the Aviation Fund, as well as grants and contributions from other governments. Activities funded through such grants and contributions 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 16**
**Filled, Full-Time Positions**[(1), (2)]

| | June 30, 2012 | June 30, 2013 | June 30, 2014 | June 30, 2015 | June 30, 2016 |
|---|---|---|---|---|---|
| General Fund | | | | | |
| Police | 7,225 | 7,193 | 7,095 | 7,061 | 6,942 |
| Fire | 2,072 | 2,125 | 2,053 | 2,150 | 2,316 |
| Courts | 1,957 | 1,909 | 1,866 | 1,842 | 1,839 |
| Prisons | 2,144 | 2,248 | 2,268 | 2,286 | 2,289 |
| Streets | 1,682 | 1,690 | 1,684 | 1,664 | 1,676 |
| Public Health | 669 | 673 | 659 | 653 | 653 |
| Human Services[(3)] | 804 | 377 | 382 | 395 | 449 |
| All Other | 4,622 | 4,710 | 4,984 | 5,115 | 5,263 |
| Total – General Fund | 21,175 | 20,925 | 20,991 | 21,166 | 21,427 |
| Other Funds | 4,540 | 5,547 | 5,657 | 5,626 | 5,615 |
| Total – All Funds | 25,715 | 26,472 | 26,648 | 26,792 | 27,042 |

(1) Source: Table P-1 in the City's Quarterly City Manager's Reports.
(2) Table 16 does not include seasonal or temporary employees.
(3) Fiscal Year 2011 was the last year that the full amount of revenue for DHS was deposited into the General Fund. The decrease in filled, full-time positions Fiscal Year 2012 to Fiscal Year 2013 is largely due to the transfer of the majority of DHS revenue and obligations to the Grants Revenue Fund.

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**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: (i) employees who are not subject to the civil service system ("exempt employees"); (ii) employees who fall under the civil service system but are not represented by a union ("non-represented employees"); and (iii) employees who are subject to the civil service system and are represented by a union ("union employees").

As of June 30, 2016, the City's 22,789 unionized employees, representing approximately 84.3% of the City's employees, were represented by the City's four municipal unions: (i) Fraternal Order of Police ("FOP") Lodge No. 5; (ii) IAFF Local 22; (iii) AFSCME DC 33; and (iv) American Federation of State, County and Municipal Employees District Council 47 ("AFSCME DC 47").

In July 2016, a collective bargaining agreement was reached with AFSCME DC 33, which provides for pension reforms coupled with salary increases, lump sum payments for health care, and a one-time bonus. This collective bargaining agreement was ratified on August 19, 2016. The costs of such agreement, along with the cost of the wage reopener with IAFF Local 22, are included in the Modified Twenty-Fifth Five-Year Plan. Such plan also provides additional resources for compensation changes for other unionized and non-unionized employees.

On June 30, 2017, the labor agreements for FOP Lodge No. 5, IAFF Local 22, and AFSCME DC 47 are set to expire. The Twenty-Sixth Five-Year Plan includes a $200 million reserve for the potential costs of anticipated new labor agreements for such unions.

Collective bargaining with respect to the wages, hours and other terms and conditions of employment of union employees, other than uniformed employees of the Police Department and the Fire Department, is governed by the Public Employee Relations Act (Pa. P.L. 563, No. 195 (1970)) ("PERA"). PERA requires the City and the unions to negotiate in good faith to attempt to reach agreement on new contract terms and, if an impasse exists after such negotiations, to mediate through the Commonwealth Bureau of Mediation. Once the mediation procedures have been satisfied, and if no collective bargaining agreement has been reached, most employees covered by PERA are permitted to strike. Certain employees, however, including employees of the Sheriff's Office and the Register of Wills represented by the FOP, corrections officers represented by AFSCME DC 33, and employees of the First Judicial District represented by AFSCME DC 47, are not permitted to strike under PERA. These employees must submit any impasse to binding interest arbitration once the mediation procedures have been satisfied. PERA permits parties at an impasse, which are not required to submit to binding interest arbitration, to do so voluntarily. Provisions of an interest arbitration award issued under PERA 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 the Fire Department bargain under the Policemen and Firemen Collective Bargaining Act (Pa. P.L. 237, No. 111 (1968)) ("Act 111"), which provides for final and binding interest arbitration to resolve collective bargaining impasses and prohibits these employees from striking. Interest arbitration under Act 111 operates similarly to interest arbitration under PERA, but City Council is not permitted to reject the portions of an interest arbitration award that require legislative action. To the contrary, City Council 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 PERA, 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 a PERA interest arbitration award on appeal, the PICA Act requires an Act 111 interest arbitration panel to, among other things, 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, among other things, if it awards wages or benefits that exceed what is assumed in the most-recent 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 2013 through 2018 are shown in the following table.

**Table 17**
**General Fund Employee Benefit Expenditures**
**Fiscal Years 2013-2016 (Actual) and 2017-2018 (Projected)**
**(Amounts in Millions of USD)[(1)]**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Pension Contribution[(2)] | $618.9[(4)] | $646.4[(4)] | $558.3 | $622.1[(8)] | $651.0[(9)] | $680.2[(10)] |
| Health[(3)] | | | | | | |
| Payments under City-administered plan | 76.4 | 75.6 | 75.5 | 72.5 | 81.9 | 96.3 |
| Payments under union-administered plans[(5)] | 286.8 | 333.8 | 319.1 | 339.0 | 366.2 | 370.1 |
| Total Health | 363.2 | 409.4 | 394.6 | 411.5 | 448.1 | 466.4 |
| Federal Insurance Contributions Act (FICA) Taxes[(6)] | 64.7 | 67.5 | 71.2 | 71.7 | 75.4 | 76.1 |
| Other[(7)] | 72.3 | 70.8 | 75.6 | 76.0 | 84.1 | 85.1 |
| Total | $1,119.1 | $1,194.1 | $1,099.5 | $1,181.3 | $1,258.6 | $1,307.8 |

(1) Source: From the City's five-year financial plans, except for "Payments under City-administered plan," which was provided by the City, Department of Human Resources.
(2) Includes debt service on Pension Bonds (as defined herein) and the Commonwealth contributions to the Municipal Pension Fund. See Tables 29 and 30.
(3) This breakdown of "Health" between "Payments under City-administered plan" and "Payments under union-administered plans" is an estimate of actual expenses. The City records the actual health expenses in one line item, which corresponds to the figures in "Total Health."
(4) Includes repayment of deferred contributions. See Table 29.
(5) AFSCME DC 33 receives a per member per month amount of $1,194 from the City.
(6) Includes payments of social security and Medicare taxes.
(7) Includes payments for unemployment compensation, employee disability, group life, group legal, tool allowance, and flex cash payments.
(8) Includes $9.7 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."
(9) Assumes $18.3 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."
(10) Assumes $24.0 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

Figures may not sum due to rounding.

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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 AFSCME DC 33 who have chosen not to become members of the union's healthcare plan, receive health benefits through a plan sponsored and administered by the City. Each of the plans provides different benefits determined by the plan sponsor or through collective bargaining. To provide health care coverage, the City pays a negotiated monthly premium for employees covered by the union contract for AFSCME DC 33 and is self-insured for all other eligible employees. Aside from AFSCME DC 33, the City is responsible for the actual health care cost that is invoiced to the City's unions by their respective vendors. The actual cost can be a combination of self-insured claim expenses, premiums, ancillary services and administrative expenses. In addition, employees who satisfy the eligibility criteria receive five years of health benefits after their retirement. See "OTHER POST-EMPLOYMENT BENEFITS" below. These benefits are determined and administered by the plan in which the employee participated at the time of his or her retirement. As reflected in Table 17, the health payments under the City-administered plan have been relatively constant; the health payments for the union-sponsored plans have increased substantially since Fiscal Year 2013. 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 Pension Plan. See "PENSION SYSTEM" below.

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## Overview of Current Labor Situation

Table 18 summarizes the current status of the interest arbitration awards that have been issued for, and contract settlements reached with, the City's major labor organizations, as well as changes that have been made for exempt and non-represented employees. It also provides a brief summary of pension reforms that have occurred since 2009.

**Table 18**
**Status of Arbitration Awards and Labor Contract Settlements**

| Organization | Authorized Number of Full-Time Citywide Employees Represented[(1)] | Status of Arbitration Award or Contract Settlement | Wage Increases | Pension Reforms[(2)] |
|---|---|---|---|---|
| FOP Lodge No. 5 (Police Department) | 6,375 | Three-year contract effective July 1, 2014 through June 30, 2017 awarded by arbitration panel on July 30, 2014 | • 3% pay increase for Fiscal Year 2015.<br>• 3.25% pay increase for Fiscal Years 2016 and 2017. | • Employees in Plan 87 hired before 1/1/10 pay 5% of salary<br>• Employees hired on or after 1/1/10 elect to either enter Plan 87 and pay 6% of salary or enter Plan 10 |
| FOP Lodge No. 5 (Sheriff's Office and Register of Wills) | 372 | Three-year contract effective July 1, 2014 through June 30, 2017 awarded by arbitration panel on April 16, 2015 | • 2.5% increase for Fiscal Year 2015.<br>• 3.0% increase for Fiscal Year 2016.<br>• 3.25% increase for Fiscal Year 2017.<br>• Register of Wills employees receive same wage package as AFSCME DC 33. | • Sheriff's Office:<br>  ◦ Employees in Plan 87 hired before 1/1/12 pay 30% of normal cost<br>  ◦ Employees hired on or after 1/1/12 elect to enter Plan 87 and pay 50% of normal cost or enter Plan 10<br>• Register of Wills:<br>  ◦ Employees in Plan 87 hired before 1/1/12 pay 30% of normal cost<br>  ◦ Employees hired on or after 1/1/12 participate in Plan 10 |
| IAFF Local 22 | 2,407 | Four-year contract effective July 1, 2013 through June 30, 2017 awarded by arbitration panel on January 9, 2015 | • 3% pay increase for Fiscal Year 2014 and 2015.<br>• 3.25% pay increase for Fiscal Year 2016.<br>• 3.25 % pay increase for Fiscal Year 2017. | • Employees in Plan 87 hired before 7/2/12 pay 5% of salary<br>• Employees hired on or after 7/2/12 elect to enter Plan 87 and pay 6% of salary or enter Plan 10 |
| AFSCME DC 33 | 7,372 | Four-year contract term effective July 1, 2016 through June 30, 2020 (ratified on August 19, 2016) | • 3.0% pay increase effective July 1, 2016.<br>• 3.0% pay increase for Fiscal Year 2018<br>• 2.5% pay increase for Fiscal Year 2019.<br>• 3.0% pay increase for Fiscal Year 2020. | • Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund<br>• Mandatory stacked hybrid plan for new hires under which employees receive a defined benefit pension for their first $50,000 of earnings and a defined contribution pension for earnings above $50,000<br>• Plan 10 closed to new enrollment for members of DC33 but remains unchanged for other employee groups<br>• Once fully implemented, such employees in Plan 10 are expected to receive a letter indicating that they have 90 days to make an irrevocable election to opt into the stacked-hybrid<br>• DROP (as defined below) interest rate decreases from 4.5% to the rate on the one year treasury effective January 1 of each year (currently 0.65%) for participants not currently enrolled or eligible to enroll |

(1) From data provided by the Mayor's Office of Labor Relations as of June 30, 2016.
(2) "Plan 87" and "Plan 10" referenced in this column are described in Table 19. Plan 10 is mandatory for newly-hired employees of the Register of Wills and was mandatory for employees covered by the Correctional Officers arbitration award who are now covered by the same pension provisions as other employees of AFSCME DC 33.

| Organization | Authorized Number of Full-Time Citywide Employees Represented[1] | Status of Arbitration Award or Contract Settlement | Wage Increases | Pension Reforms[2] |
|---|---|---|---|---|
| AFSCME DC 33, Local 159 Correctional Officers | 2,220 | Three-year contract effective July 1, 2014 through June 30, 2017 awarded by arbitration panel on March 23, 2015 | • 3% pay increase for Fiscal Year 2015.<br>• 3.25% pay increase for Fiscal Years 2016 and 2017.<br>• $600 equity adjustment to base wages on January 1, 2016. | • Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund<br>• Mandatory stacked hybrid plan for new hires under which employees receive a defined benefit pension for their first $50,000 of earnings and a defined contribution pension for earnings above $50,000<br>• Plan 10 closed to new enrollment for members of DC33 but remains unchanged for other employee groups<br>• Once fully implemented, such employees in Plan 10 are expected to receive a letter indicating that they have 90 days to make an irrevocable election to opt into the stacked-hybrid<br>• DROP interest rate decreases from 4.5% to the rate on the one year treasury effective January 1 of each year (currently 0.65%) for participants not currently enrolled or eligible to enroll |
| AFSCME DC 47 | 3,566 | Contract term from July 1, 2009 through June 30, 2017 ratified on March 5, 2014 | • 3.5% pay increase effective April 4, 2014.<br>• 2.5% pay increase for Fiscal Year 2016.<br>• 3% pay increase for Fiscal Year 2017. | • Employees in Plan 87 hired before 3/5/14 pay 30% of normal cost plus an additional 0.5% of pay in 2015 and an additional 0.5% of pay in 2016 (for a total of an additional 1% of pay by 1/1/16)<br>• Employees hired on or after 3/5/14 may elect to enter Plan 87 and pay an additional 1% of pay over what others in Plan 87 pay or enter Plan 10<br>• DROP interest rate decreases from 4.5% to the rate on the one year treasury effective January 1 of each year (currently 0.65%) for participants not currently enrolled or eligible to enroll |
| AFSCME DC 47 Local 810 Court Employees | 477 | Agreement ratified August 13, 2014 on economic terms for July 1, 2014 through June 30, 2016; a one-year agreement for July 1, 2016-June 30, 2017 was also ratified in Fiscal Year 2017 | • 2.5% pay increase for Fiscal Year 2015.<br>• 2.5% pay increase for Fiscal Year 2016.<br>• 3% pay increase for Fiscal Year 2017. | • Employees in Plan 87 hired before 3/5/14 pay 30% of normal cost plus an additional 0.5% of pay in 2015 and an additional 0.5% of pay in 2016 (for a total of an additional 1% of pay by 1/1/16)<br>• Employees hired on or after 11/14/14 may elect to enter Plan 87 and pay an additional 1% of pay over what others in Plan 87 pay or enter Plan 10<br>• DROP interest rate decreases from 4.5% to the rate on the one year treasury effective January 1 of each year (currently 0.65%) for participants not currently enrolled or eligible to enroll |
| Exempt and Non-Represented Employees | 3,752 | Changes for exempt and non-represented employees | • 2.5% pay increase effective October 1, 2012.<br>• 3.5% exempt pay increase effective September 1, 2014.<br>• 3.5% non-represented pay increase effective April 1, 2014.<br>• 2.5% non-represented pay increase for Fiscal Year 2016. | • Employees in Plan 87 hired before 5/14/14 for non-represented civil service and before 11/14/14 for non-represented non-civil service pay 30% of normal cost plus an additional 0.5% of pay in 2015 and an additional 0.5% of pay in 2016 (for a total of an additional 1% of pay by 1/1/16)<br>• Employees hired on or after dates above may elect to enter Plan 87 and pay an additional 1% of pay over what others in Plan 87 pay or enter Plan 10<br>• DROP interest rate decreases from 4.5% to the rate on the one year treasury effective January 1 of each year (currently 0.65%) for participants not currently enrolled or eligible to enroll |

(1) From data provided by the Mayor's Office of Labor Relations as of June 30, 2016.

(2) "Plan 87" and "Plan 10" referenced in this column are described in Table 19. Plan 10 is mandatory for newly-hired employees of the Register of Wills and was mandatory for employees covered by the Correctional Officers arbitration award who are now covered by the same pension provisions as other employees of AFSCME DC 33.

Certain features of the 1987 Plan ("Plan 87") and the 2010 Plan ("Plan 10") are summarized below. Plan 87 is solely a defined benefit plan. Plan 10 is a "hybrid" plan that includes both a defined benefit and a defined contribution component. A more comprehensive summary of each plan is included as Appendix D of the July 1, 2016 Valuation (as defined herein). See "PENSION SYSTEM" below.

**Table 19**
**Summary of Key Aspects of Plan 87 and Plan 10**

| Plan 87 | Normal Retirement Eligibility | Average Final Compensation ("AFC") | Defined Benefit – Retirement Benefits Multiplier |
|---|---|---|---|
| Municipal (Plan Y) | Age 60 and 10 years of credited service(1) | Average of three highest calendar or anniversary years | • (2.2% x AFC x years of service up to 10 years) plus (2.0% x AFC x numbers of years in excess of 10 years), subject to a maximum of 100% of AFC |
| Police and Fire | Age 50 and 10 years of credited service(1) | Average of two highest calendar or anniversary years | • (2.2% x AFC x years of service up to 20 years) plus (2.0% x AFC x numbers of years in excess of 20 years), subject to a maximum of 100% of AFC |
| Elected Official (Plan L) | Age 55 and 10 years of credited service(2) | Average of three highest calendar or anniversary years | • 3.5% x AFC x years of service, subject to a maximum of 100% of AFC |

| Plan 10 | Normal Retirement Eligibility | Average Final Compensation ("AFC") | Defined Benefit – Retirement Benefits Multiplier |
|---|---|---|---|
| Municipal(3) | Age 60 and 10 years of credited service | Average of five highest calendar or anniversary years | • 1.25% x AFC x years of service up to 20 years |
| Police and Fire | Age 50 and 10 years of credited service | Average of five highest calendar or anniversary years | • 1.75% x AFC x years of service up to 20 years<br>- - - - - - - - - - - - - - - - - - - - - - - - - - - -<br>**Defined Contribution**<br>• The City matches employee contributions at a 50% rate, with the total City match not to exceed 1.5% of compensation for each year.<br>• After five years of credited service, the full amount in the account is distributed to the employee when he or she separates from City service.<br>• The right to the portion of the account attributable to City contributions does not vest until the completion of five years of credited service. |

(1) Five years of credited service for those who make additional contributions. See "PENSION SYSTEM – Pension System; Pension Board – Membership."
(2) The lesser of two full terms or eight years of credited service for those elected officials who make additional contributions. See "PENSION SYSTEM – Pension System; Pension Board – Membership."
(3) Under Plan 10 (Municipal), pension contributions freeze after 20 years. At such time and for each subsequent year, the employee's pension payments remain fixed and the employee may no longer make pension contributions.

As part of the new collective bargaining agreement for AFSCME DC 33, the City and AFSCME DC 33 have agreed on a new, stacked hybrid pension plan for new municipal employees represented by AFSCME DC 33 ("Plan 16"). Plan 16 includes a defined benefit and defined contribution component. The defined benefit is applied to annual earnings up to $50,000. Employees with annual salaries over $50,000 may voluntarily participate in the defined contribution portion. The City will match a portion of an eligible employee's voluntary contributions up to a cap of 1.5% of annual compensation. Current municipal employees represented by AFSCME DC 33 will pay a tiered employee pension contribution rate based on their pay range. Starting at an annual salary of $45,000, the tiered structure is progressive so that higher earning employees will contribute at a higher rate.

**Purchase of Services**

The following table shows the City's major purchase of services, which represents one of the major classes of expenditures from the General Fund. Table 20 shows contracted costs of the City for Fiscal Years 2013-2016, the budgeted amounts and current estimates for Fiscal Year 2017, and the budgeted amounts for Fiscal Year 2018.

**Table 20**
**Purchase of Services in the General Fund**
**Fiscal Years 2013-2016 (Actual), 2017 (Budget and Current Estimate), and 2018 (Budget)**
**(Amounts in Millions of USD)[(1), (7)]**

| | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Adopted Budget 2017 | Current Estimate 2017 | Adopted Budget 2018 |
|---|---|---|---|---|---|---|---|
| Human Services[(2)] | $67.5 | $76.3 | $77.3 | $75.3 | $78.9 | $79.2 | $77.4 |
| Public Health | 63.0 | 60.5 | 59.4 | 64.9 | 66.9 | 70.6 | 73.9 |
| Public Property[(3)] | 139.5 | 140.7 | 148.8 | 155.0 | 159.4 | 159.7 | 156.4 |
| Streets[(4)] | 40.5 | 48.3 | 47.6 | 51.9 | 49.0 | 48.9 | 49.7 |
| First Judicial District | 16.5 | 15.8 | 17.1 | 17.7 | 10.7 | 10.2 | 9.5 |
| Licenses & Inspections | 7.1 | 10.1 | 10.0 | 10.4 | 11.1 | 12.0 | 11.8 |
| Homeless Services[(5)] | 34.2 | 36.9 | 36.6 | 37.1 | 37.6 | 37.8 | 39.1 |
| Prisons | 105.4 | 105.8 | 101.6 | 104.9 | 105.5 | 108.1 | 105.5 |
| All Other[(6)] | 284.1 | 293.2 | 312.2 | 305.0 | 377.5 | 361.0 | 411.8 |
| **Total** | **$757.8** | **$787.6** | **$810.6** | **$822.2** | **$896.9** | **$887.5** | **$935.1** |

(1) Sources: For Fiscal Years 2013-2016, the City's Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Year 2017 (Adopted Budget), the Third Quarter QCMR. For Fiscal Years 2017 (Current Estimate) and 2018, the Fiscal Year 2018 Adopted Budget.
(2) Includes payments for care of dependent and delinquent children.
(3) Includes payments for SEPTA, space rentals, and utilities.
(4) Includes solid waste disposal costs.
(5) Includes homeless shelter and boarding home payments.
(6) Includes the Convention Center subsidy, payments for vehicle leasing, and debt service on lease and service agreement financings, among other things.
(7) Figures may not sum due to rounding.

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**City Payments to School District**

In each Fiscal Year since Fiscal Year 1996, the City has made an annual grant of at least $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 $20 million annual grant beginning in Fiscal Year 2002. The following table presents the City's payments to the School District from the General Fund for Fiscal Years 2013-2016, the budgeted amount and current estimate for Fiscal Year 2017, and the budgeted amount for Fiscal Year 2018.

**Table 21**
**City Payments to School District**
**Fiscal Years 2013-2016 (Actual), 2017 (Budget and Current Estimate), and 2018 (Budget)**
**(Amounts in Millions of USD)[1]**

| | Actual 2013[2] | Actual 2014[3] | Actual 2015 | Actual 2016 | Budget and Current Estimate 2017 | Budget 2018 |
|---|---|---|---|---|---|---|
| City Payments to School District | $68.9 | $114.1 | $69.1 | $104.2 | $104.3 | $104.3 |

(1) Sources: For Fiscal Years 2013-2016, the City's CAFRs for such Fiscal Years. For Fiscal Year 2017, the Fiscal Year 2017 Adopted Budget and the Twenty-Sixth Five-Year Plan. For Fiscal Year 2018, the Fiscal Year 2018 Adopted Budget.
(2) The City's contribution included a budgeted contribution of $48.9 million and an additional contribution of $20 million, which was derived from an increase in the Real Estate Tax rate.
(3) In Fiscal Year 2014, the City's contribution included a budgeted contribution of $69.1 million and an additional $45.1 million one-time contribution that was passed through from the Commonwealth.

In Fiscal Year 2014, the City also issued, through PAID, $27.3 million of bonds for the benefit of the School District. In Fiscal Year 2015, the City issued, through PAID, $57.5 million of bonds for the benefit of the School District and to refund the bonds issued in Fiscal Year 2014. The bond proceeds paid to the School District are not subject to the maintenance of effort described below.

The City's adopted Fiscal Year 2016 budget included a property tax increase and parking tax increase to benefit the School District in amounts of $25 million and $10 million, respectively, which are included in the $104.2 million for Fiscal Year 2016 and the $104.3 million for Fiscal Year 2017 reflected in Table 21 above. Both the $25 million and the $10 million are City revenues collected by the City and then granted to the School District. Each year in the Twenty-Sixth Five-Year Plan reflects these increases in tax revenues, as well as the related expense of the grant to the School District; therefore, these amounts are already part of the City's General Fund balance calculation.

Section 696 of the School Code 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 (i) 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 (ii) 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. The School District was declared distressed effective December 22, 2001, and such declaration continues to be in effect. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Local Government Agencies – *Mayoral-Appointed or Nominated Agencies* – The School District."

For a discussion of changes and proposed changes in the funding provided by the City to the School District, see "REVENUES OF THE CITY – Sales and Use Tax." For a discussion of the transition to AVI, see "REVENUES OF THE CITY – Real Property Taxes Assessment and Collection."

**City Payments to SEPTA**

SEPTA operates a public transportation system within the City and Bucks, Chester, Delaware, and Montgomery counties. SEPTA's operating budget is supported by federal, Commonwealth, and local subsidies, including payments from the City. The following table presents the City's payments to SEPTA from the General Fund for Fiscal Years 2013-2016, the budgeted amount and current estimate for Fiscal Year 2017, and the budgeted amount for Fiscal Year 2018.

**Table 22**
**City Payments to SEPTA**
**Fiscal Years 2013-2016 (Actual), 2017 (Budget and Current Estimate), and 2018 (Budget)**
**(Amounts in Millions of USD)[1]**

| | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Budget and Current Estimate 2017 | Budget 2018 |
|---|---|---|---|---|---|---|
| City Payment to SEPTA | $65.2 | $66.0 | $70.4 | $74.2 | $79.7 | $82.7 |

(1) Sources: For Fiscal Years 2013-2016, the City's CAFRs for such Fiscal Years. For Fiscal Year 2017, the Fiscal Year 2017 Adopted Budget and the Twenty-Sixth Five-Year Plan. For Fiscal Year 2018, the Fiscal Year 2018 Adopted Budget.

The City budgets operating subsidies each Fiscal Year to match the estimated operating subsidies of the Commonwealth under Act 89. The state operating subsidy is funded through the Pennsylvania Public Transportation Trust Fund as created by Act 44 of 2007, amended by Act 89 of 2013. The local match requirement for Fiscal Years 2017-2022 has been calculated to match state operating subsidies. In addition, local matching funds must be appropriated each Fiscal Year in which state funds are received in order for SEPTA to receive the full allocation of state funds. The Twenty-Sixth Five-Year Plan projects annual operating subsidy payments to SEPTA from the City will increase to $99.7 million by Fiscal Year 2022. For more information on SEPTA, see APPENDIX B – "TRANSPORTATION – Southeastern Pennsylvania Transportation Authority (SEPTA)."

**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 (the "Convention Center Operating Agreement"). The Convention Center Operating Agreement provides for the operation of the Convention Center by the Convention Center Authority and includes an annual service fee of $15,000,000 from the City to the Convention Center Authority in each Fiscal Year through Fiscal Year 2040.

As authorized by ordinance, the City has agreed to pay to the Convention Center Authority on a monthly basis a certain percentage of hotel room taxes and hospitality promotion taxes collected during the term of the Convention Center Operating Agreement. The remaining percentages of such taxes are paid to the City's tourism and marketing agencies. The General Fund does not retain any portion of the proceeds of the hotel room rental tax or the hospitality promotion tax.

## PENSION SYSTEM

*The amounts and percentages set forth under this heading relating to the City's pension system, including, for example, actuarial liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including the investment return rates, inflation rates, salary increase rates, post-retirement mortality, active member mortality, rates of retirement, etc. The reader is cautioned to review and carefully consider the assumptions set forth in the documents that are cited as the sources for the information in this section. In addition, the reader is cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to changes, any of which could cause a significant change in the unfunded actuarial liability.*

### Overview

The City faces significant ongoing financial challenges in meeting its pension obligations, including an unfunded actuarial liability ("UAL") of approximately $6.1 billion as of July 1, 2016. In Fiscal Year 2016, the City's contribution to the Municipal Pension Fund was approximately $660.2 million, of which the General Fund's share (including the Commonwealth contribution) was $512.2 million. See Table 29. The City's aggregate pension costs (consisting of payments to the Municipal Pension Fund and debt service on the Pension Bonds (as defined herein)) have increased from approximately 10.15% of the City's General Fund budget to approximately 13.93% of the General Fund budget from Fiscal Years 2007 to 2016. See Table 31. As reflected in the Funded Ratio chart following Table 28, the funded ratio of the Municipal Pension Plan was 50.0% on July 1, 1997 (at which time the UAL was approximately $2.7 billion), and was 44.8% on July 1, 2016.

The decline in the Municipal Pension System's funded status and the net growth of the unfunded liability is the product of a number of factors, including the following:

- The declines in the equity markets in 2000-2001 and in 2008-2009. See Table 24 and the Funded Ratio chart below Table 28.

- A reduction in the assumed rate of return, from 9.00% in 2004 to 7.70% effective July 1, 2016. Although the gradual reductions in the assumed rates of return reflected in Table 24 are considered a prudent response to experience studies, by reducing the assumed return in the measurement of the actuarial liabilities, it serves to increase the UAL from what it otherwise would have been.

- Adopting more conservative mortality rates in response to experience studies performed by the Municipal Pension Plan actuary.

- The Municipal Pension Plan is a mature system, which means the number of members making contributions to the Municipal Pension Plan is less than the number of retirees and other beneficiaries receiving payments from the Municipal Pension Plan, by approximately 9,500. As a result, the aggregate of member contributions and the City's contributions are less than the amount of benefits and refunds payable in any particular year, with the result that investment income must be relied upon to meet such difference before such income can contribute to an increase in the Municipal Pension System's assets growth. See Table 26.

- The determination by the City, commencing in Fiscal Year 2005, to fund in accordance with the "minimum municipal obligation" ("MMO"), as permitted and as defined by Pennsylvania law, in lieu of the City Funding Policy (as defined herein), resulted in the City contributing less than otherwise would have been contributed. See below, "– Funding Requirements; Funding Standards."

- Revising, in Fiscal Year 2009, in accordance with Pennsylvania law, the period over which the UAL was being amortized, such that the UAL as of July 1, 2009 was "fresh started" to be amortized over a 30 year period ending June 30, 2039. In addition, changes were made to the periods over which actuarial gains and losses and assumption changes were amortized under Pennsylvania law. See "UAL and its Calculation – Actuarial Valuations."

The City has taken a number of steps to address the funding of the Municipal Pension Plan, including the following:

- Reducing the assumed rate of return on a gradual and consistent basis, which results in the City making larger annual contributions. See Table 24 below.

- Adopting more conservative mortality rates in response to experience studies performed by the Municipal Pension Plan actuary.

- In conjunction with the revisions to the amortization periods that occurred in Fiscal Year 2009, changing from a level percent of pay amortization schedule to a level dollar amount schedule. This results in producing payments that ensure that a portion of principal on the UAL is paid each year.

- Funding consistently an amount greater than the MMO (subject to the authorized deferrals for Fiscal Years 2010 and 2011 described below).

- Negotiating collective bargaining agreements by which additional contributions are being made (and will be made) by certain current (and future) members and by which benefits will be capped for certain future members of the Municipal Pension Plan. See Table 18.

- Securing additional funding, including funds required to be deposited by the City to the Municipal Pension Fund from its share of future sales tax revenue.

This "Overview" is intended to highlight certain of the principal factors that led to the pension system's current funded status, and significant steps the City and the Pension Board have taken to address the underfunding. The reader is cautioned to review with care the more detailed information presented below under this caption, "PENSION SYSTEM."

**Pension System; Pension Board**

The City maintains two defined-benefit pension programs: (i) the Municipal Pension Plan, a multi-employer plan, which provides benefits to police officers, firefighters, non-uniformed employees, and non-represented appointed and elected officials, and (ii) the PGW Pension Plan, a single employer plan, which provides benefits to PGW employees. The Municipal Pension Plan is administered through 18 separate benefit structures, the funding for which is accounted for on a consolidated basis by the Municipal Pension Fund. The 18 benefit structures establish for their respective members different contribution levels, retirement ages, etc., but all assets are available to pay benefits to all members of the Municipal Pension Plan. The Municipal Pension Plan is a mature plan, initially established in 1915, with investment assets that totaled approximately $4.4 billion as of June 30, 2016. The Municipal Pension Plan has approximately 28,300 members who make contributions to the plan, and provides benefits to approximately 37,800 retirees and other beneficiaries.

PGW is principally a gas distribution facility owned by the City. For accounting presentation purposes, PGW is a component unit of the City and follows accounting rules as they apply to proprietary fund-type activities. The PGW Pension Plan is funded with contributions by PGW to such plan, which are treated as an operating expense of PGW, and such plan is not otherwise addressed under the caption "PENSION SYSTEM." See "PGW PENSION PLAN" below.

Contributions are made by the City to the Municipal Pension Fund from: (i) the City's General Fund; (ii) funds that are received by the City from the Commonwealth for deposit into the Municipal Pension Fund; and (iii) various City inter-fund transfers, representing amounts contributed, or reimbursed, to the City's General Fund for pensions from the City's Water Fund, Aviation Fund, and certain other City funds or agencies. See Table 29. In addition to such City (employer) contribution, the other principal additions to the Municipal Pension Fund are: (i) member (employee) contributions; (ii) interest and dividend income; (iii) net appreciation in asset values; and (iv) net realized gains on the sale of investments. See Table 26 below. An additional source of funding is that portion of the 1% Sales Tax rate increase that is required under Pennsylvania law to be deposited to the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

The City of Philadelphia Board of Pensions and Retirement (the "Pension Board") was established by the City Charter to administer "a comprehensive, fair and actuarially sound pension and retirement system covering all officers and employees of the City." The City Charter provides that the Pension Board "shall consist of the Director of Finance, who shall be its chairman, the Managing Director, the City Controller, the City Solicitor, the Personnel Director and four other persons who shall be elected to serve on the Board by the employees in the civil service in such manner as shall be determined by the Board." In addition, there is one non-voting member on the Pension Board, who is appointed by the President of City Council. An Executive Director, together with a staff of 73 personnel, administers the day-to-day activities of the retirement system, providing services to approximately 66,200 members.

The Municipal Pension Plan, the Municipal Pension Fund, and the Pension Board are for convenience sometimes collectively referred to under this caption as the "Municipal Retirement System."

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Membership. The following table shows the membership totals for the Municipal Pension Plan, as of July 1, 2016 and as compared to July 1, 2015.

**Table 23**
**Municipal Pension Plan – Membership Totals**

| | July 1, 2016 | July 1, 2015 | % Change |
|---|---|---|---|
| Actives | 28,308 | 27,951 | 1.3% |
| Terminated Vesteds | 1,248 | 1,334 | -6.4% |
| Disabled | 4,005 | 4,016 | -0.3% |
| Retirees | 22,412 | 22,245 | 0.8% |
| Beneficiaries | 8,567 | 8,566 | 0.0% |
| Deferred Retirement Option Plan (“DROP”) | 1,614 | 1,784 | -9.5% |
| Total City Members | 66,154 | 65,896 | 0.4% |
| | | | |
| Annual Salaries | $1,676,548,962 | $1,597,848,869 | 4.9% |
| Average Salary per Active Member | $59,225 | $57,166 | 3.6% |
| | | | |
| Annual Retirement Allowances | $741,828,339 | $719,580,951 | 3.1% |
| Average Retirement Allowances | $21,205 | $20,662 | 2.6% |

Source: July 1, 2016 Valuation.

As shown in Table 23, total membership in the Municipal Pension Plan increased by 0.4%, or from 65,896 to 66,154 members, from July 1, 2015 to July 1, 2016, including an increase of 1.3% in active members from 27,951 to 28,308 (who were contributing to the Municipal Pension Fund). Of the 66,154 members, 37,846 were retirees, beneficiaries, disabled, and other members (who were withdrawing from, or not contributing to, the Municipal Pension Fund).

Subject to the exceptions otherwise described in this paragraph, employees and officials become vested in the Municipal Pension Plan upon the completion of ten years of service. Employees and appointed officials who hold positions that are exempt from civil service and who are not entitled to be represented by a union, and who were hired before January 13, 1999, may elect accelerated vesting after five years of service in return for payment of a higher employee contribution than if the vesting period were ten years. Such employees and officials hired after January 13, 1999, become vested after five years of service and pay a higher employee contribution than if the vesting period were ten years. Elected officials become vested in the Municipal Pension Plan once they complete service equal to the lesser of two full terms in their elected office or eight years and pay a higher contribution than if the vesting period were ten years. Elected officials pay an additional employee contribution for the full cost of the additional benefits they may receive over those of general municipal employees. Upon retirement, employees and officials may receive up to 100% of their average final compensation depending upon their years of credited service and the plan in which they participate.

All City employees participate in the U.S. Social Security retirement system except for uniformed Police and uniformed 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 July 1, 2016 Actuarial Valuation Report (the “July 1, 2016 Valuation”) and includes as of July 1, 2016, 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.

**Funding Requirements; Funding Standards**

City Charter. The City Charter establishes the "actuarially sound" standard quoted above. Case law has interpreted "actuarially sound" as used in the City Charter to require the funding of two components: (i) "normal cost" (as defined below) and (ii) interest on the UAL. (*Dombrowski v. City of Philadelphia*, 431 Pa. 199, 245 A.2d 238 (1968)).

Pennsylvania Law. The Municipal Pension Plan Funding Standard and Recovery Act (Pa. P.L. 1005, No. 205 (1984)) ("Act 205"), applies to all municipal pension plans in Pennsylvania, "[n]otwithstanding any provision of law, municipal ordinance, municipal resolution, municipal charter, pension plan agreement or pension plan contract to the contrary . . . ." Act 205 provides that the annual financial requirements of the Municipal Pension Plan are: (i) the normal cost; (ii) administrative expense requirements; and (iii) an amortization contribution requirement. In addition, Act 205 requires that the MMO be payable to the Municipal Pension Fund from City revenues, and that the City shall provide for the full amount of the MMO in its annual budget. The MMO is defined as "the financial requirements of the pension plan reduced by . . . the amount of any member contributions anticipated as receivable for the following year." Act 205 further provides that the City has a "duty to fund its municipal pension plan," and the failure to provide for the MMO in its budget, or to pay the full amount of the MMO, may be remedied by the institution of legal proceedings for mandamus.

In accordance with Pennsylvania law and Act 205, the City uses the entry age normal actuarial funding method, whereby "normal cost" (associated with active employees only) is the present value of the benefits that the City expects to become payable in the future distributed evenly as a percent of expected payroll from the age of first entry into the plan to the expected age at retirement. The City's share of such normal cost (to which the City adds the Plan's administrative expenses) is reduced by member contributions. The term "level" means that the contribution rate for the normal cost, expressed as a percentage of active member payroll, is expected to remain relatively level over time.

The City has budgeted and paid at least the full MMO amount since such requirement was established, and more specifically, prior to Fiscal Year 2005 the City had been contributing to the Municipal Pension Plan the greater amount as calculated pursuant to the City Funding Policy which was implemented before Act 205 was effective, as described below. Payment of the MMO is a condition for receipt of the Commonwealth contribution to the Municipal Pension Fund. See Table 29.

Act 205 was amended in 2009 by Pa. P.L. 396, No. 44 ("Act 44") to authorize the City to: (i) "fresh start" the amortization of the UAL as of July 1, 2009 by a level annual dollar amount over 30 years ending June 30, 2039; and (ii) revise the amortization periods for actuarial gains and losses and assumption changes in accordance with Act 44, as described below under "UAL and its Calculation – Actuarial Valuations." In addition, Act 44 authorized the City to defer, and the City did defer, $150 million of the MMO otherwise payable in Fiscal Year 2010, and $80 million of the MMO otherwise payable in Fiscal Year 2011, subject to repayment of the deferred amounts by June 30, 2014. The City repaid the aggregate deferred amount of $230 million, together with interest at the then-assumed interest rate of 8.25%, in Fiscal Year 2013. See Table 29. Because the final amortization date is fixed, if all actuarial assumptions are achieved, the unfunded liability would decline to zero as of the final amortization date. To the extent future experience differs from the assumptions used to establish the 30-year fixed amortization payment schedule, new amortization bases attributable to a particular year's difference would be established and amortized over their own 20-year schedule.

GASB; City Funding Policy. Governmental Accounting Standards Board ("GASB") Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" ("GASB 27"), applied to the City for Fiscal Years beginning prior to July 1, 2014. For the Fiscal Year beginning July 1, 2014, GASB Statement No. 68 ("GASB 68"), which amends GASB 27 in several significant respects, applies. GASB 27 defined an "annual required contribution" ("ARC") as that amount sufficient to pay (i) the normal cost and (ii) the amortization of UAL, and provides that the maximum acceptable amortization period is 30 years (for the initial 10 years of implementation, 1996-2006, a 40-year amortization period was permitted). GASB 27 did not establish funding requirements for the City but rather was an accounting and financial reporting standard. GASB 68 does not require the calculation of an ARC but does require the City to include as a liability on its balance sheet the City's "net pension liability," as defined by GASB 68. The City has been funding the Municipal Pension Fund since Fiscal Year 2003 based on the MMO, including the deferral permitted by Act 44. See Table 29 below.

The City, prior to Fiscal Year 2005, had been funding the Municipal Pension Fund in accordance with what the City referred to as the "City Funding Policy." That reference was used and continues to be used in the Actuarial Reports. Under the City Funding Policy, the UAL as of July 1, 1985 was to be amortized over 34 years ending June 30, 2019, with payments increasing at 3.3% per year, the assumed payroll growth. Other changes in the actuarial liability were amortized in level-dollar payments over various periods as prescribed in Act 205. In 1999, the City issued pension funding bonds, the proceeds of which were deposited directly into the Municipal Pension Fund to pay down its UAL. See "– Annual Contributions – Pension Bonds" below.

Revenue Recognition Policy. The City follows a policy (the "Revenue Recognition Policy") to contribute each year to the Municipal Pension Fund an amount in excess of the MMO. The determination for such additional funding is based on not including (i) the portion of the amounts generated by the increase in the Sales Tax rate that became effective on July 1, 2014 and are required by Act 205 to be deposited to the Municipal Pension Fund (see "Revenues of the City – Sales and Use Tax"), and (ii) contributions to be made by City employees that are under Plan 16 (described above in the text that immediately follows Table 19) in the actuarial asset value when determining the annual contribution obligation.

The amounts projected by the City in the Twenty-Sixth Five Year Plan to be deposited from Sales Tax revenue into the Municipal Pension Fund, for the six Fiscal Years 2017-2022, respectively, are as follows: \$18.3 million; \$24.0 million; \$44.6 million; \$49.9 million; \$54.9 million; and \$59.8 million. (These revenue estimates reflect updates made since the data cutoff for performing the July 1, 2016 Valuation. Compare to the amounts under "Sales Tax Contribution" in the first table under the subsection "Actuarial Projections of Funded Status.")

**UAL and its Calculation**

According to the July 1, 2016 Valuation, the funded ratio (the valuation of assets available for benefits to total actuarial liability) of the Municipal Pension Fund as of July 1, 2016 was 44.8% and the Municipal Pension Fund had an unfunded actuarial liability ("UAL") of \$6.089 billion. The UAL is the difference between total actuarial liability (\$11.025 billion as of July 1, 2016) and the actuarial value of assets (\$4.936 billion as of July 1, 2016).

Key Actuarial Assumptions. In accordance with Act 205, the actuarial assumptions must be, in the judgment of both Cheiron (the independent consulting actuary for the Municipal Pension Fund) and the City, "the best available estimate of future occurrences in the case of each assumption." The assumed investment return rate used in the July 1, 2016 Valuation was 7.70% a year (which includes an inflation assumption of 2.75%), net of administrative expenses, compounded annually. For the prior actuarial valuation, the assumed investment return rate was 7.75%. See Table 24 for the assumed rates of return for Fiscal Years 2007 to 2016. The 7.75% was used to establish the MMO payment for Fiscal Year 2017; 7.70% will be used to establish the MMO payment for Fiscal Year 2018.

Other key actuarial assumptions in the July 1, 2016 Valuation include the following: (i) total annual payroll growth of 3.30%, (ii) annual administrative expenses assumed to increase 3.30% per year, (iii) to recognize the expense of the benefits payable under the Pension Adjustment Fund, actuarial liabilities were increased by 0.54%, based on the statistical average expected value of the benefits, (iv) a vested employee who terminates will elect a pension deferred to service retirement age so long as their age plus years of service at termination are greater than or equal to 55 (45 for police and fire employees), (v) for municipal and elected members, 70% of all disabilities are ordinary and 30% are service-connected, and (vi) for police and fire members, 50% of all disabilities are ordinary and 50% are service-connected.

"Smoothing Methodology". The Municipal Retirement System uses an actuarial value of assets to calculate its annual pension contribution, using an asset smoothing method to dampen the volatility in asset values that could occur because of fluctuations in market conditions. The Municipal Retirement System used a five-year smoothing prior to Fiscal Year 2009, and beginning with Fiscal Year 2009 began employing a ten-year smoothing. Using the ten-year smoothing methodology, investment returns in excess or below the assumed rate are prospectively distributed in equal amounts over a ten-year period, subject to the requirement that the actuarial value of assets will be adjusted, if necessary, to ensure that the actuarial value of assets will never be less than 80% of the market value of the assets, nor greater than 120% of the market value of the assets. The actuarial value of assets as of July 1, 2016, was approximately 113.5% of the market value of the assets.

Actuarial Valuations. The Pension Board engages an independent consulting actuary (currently Cheiron) to prepare annually an actuarial valuation report. Act 205, as amended by Act 44, establishes certain parameters for the actuarial valuation report, including: (i) use of the entry age normal actuarial cost method; (ii) that the report shall contain: (a) actuarial exhibits, financial exhibits, and demographic exhibits; (b) an exhibit of normal costs expressed as a percentage of the future covered payroll of the active membership in the Municipal Pension Plan; and (c) an exhibit of the actuarial liability of the Municipal Pension Plan; and (iii) that changes in the actuarial liability be amortized in level-dollar payments as follows: (a) actuarial gains and losses be amortized over 20 years beginning July 1, 2009 (prior to July 1, 2009, gains and losses were amortized over 15 years); (b) assumption changes be amortized over 15 years beginning July 1, 2010 (prior to July 1, 2010, assumption changes were amortized over 20 years); (c) plan changes for active members be amortized over 10 years; (d) plan changes for inactive members be amortized over one year; and (e) plan changes mandated by the Commonwealth be amortized over 20 years.

Act 205 further requires that an experience study be conducted at least every four years, and cover the five-year period ending as of the end of the plan year preceding the plan year for which the actuarial valuation report is filed. The most recent Experience Study was prepared by Cheiron in March 2014 for the period July 1, 2008 – June 30, 2013. The changes to the actuarial and demographic assumptions that were adopted by the Pension Board in response to such Experience Study have been employed since the July 1, 2014 Valuation. The principal revisions included marginal changes in salary growth rates; changes in retirement assumptions (increase for those under the pension plan the City established in 1967; decrease for those under the pension plan the City established in 1987); increase in the expected disability rates for police and fire employees; and changes in mortality assumptions to fully reflect the most recent experience. Details of these assumption changes and the experience of the Municipal Pension Plan can be found in the *City of Philadelphia Municipal Retirement System Experience Study Results and Recommendations For the period covering July 1, 2008 – June 30, 2013,* available at the Investor Information section of the City's Investor Website.

**Pension Adjustment Fund**

Pursuant to § 22-311 of the Philadelphia Code, the City directed the Pension Board to establish a Pension Adjustment Fund ("PAF") on July 1, 1999, and further directed the Pension Board to determine, effective June 30, 2000 and each Fiscal Year thereafter, whether there are "excess earnings" as defined available to be credited to the PAF. The Pension Board's determination is to be based upon the actuary's certification using the "adjusted market value of assets valuation method" as defined in § 22-311. Although the portion of the assets attributed to the PAF is not segregated from the assets of the Municipal Pension Fund, the Philadelphia Code provides that the "purpose of the Pension Adjustment Fund is for the distribution of benefits as determined by the Board for retirees, beneficiaries or survivors [and] [t]he Board shall make timely, regular and sufficient distributions from the Pension Adjustment Fund in order to maximize the benefits of retirees, beneficiaries or survivors." Distributions are to be made "without delay" no later than six months after the end of each Fiscal Year. The PAF was established, in part, because the Municipal Retirement System does not provide annual cost-of-living increases to retirees or beneficiaries. At the time the PAF was established, distributions from the PAF were subject to the restriction that the actuarial funded ratio using the "adjusted market value of assets" be not less than such ratio as of July 1, 1999 (76.7%). That restriction was deleted in 2007 by an ordinance adopted by City Council; the Mayor vetoed such ordinance, and City Council overrode such veto.

The amount to be credited to the PAF is 50% of the "excess earnings" that are between one percent (1%) and six percent (6%) above the actuarial assumed investment rate. Earnings in excess of six percent (6%) of the actuarial assumed investment rate remain in the Municipal Pension Fund. Although the Pension Board utilizes a ten-year smoothing methodology, as explained above, for the actuarial valuation of assets for funding and determination of the MMO, § 22-311 provides for a five-year smoothing to determine the amount to be credited to the PAF. The actuary determined that for the Fiscal Year ended June 30, 2016, there were no "excess earnings" as defined to be credited to the PAF. The Pension Board transfers to the PAF the full amount calculated by the actuary as being available in any year for transfer within six months of the Pension Board designating the amount to be transferred.

Transfers to the PAF and the resultant additional distributions to retirees result in removing assets from the Municipal Pension Plan. To account for the possibility of such transfers, and as an alternative to adjusting the assumed investment return rate to reflect such possibility, the actuary applies a load of 0.54% to the calculated actuarial liability as part of the funding requirement and MMO. Such calculation was utilized for the first time in the July 1, 2013 actuarial valuation.

The market value of assets as used under this caption, "PENSION SYSTEM," represents the value of the assets if they were liquidated on the valuation date and this value includes the PAF (except as otherwise indicated in certain tables), although the PAF is not available for funding purposes. The actuarial value of assets does not include the PAF.

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**Rates of Return; Asset Values; Changes in Plan Net Position**

Rates of Return. The following table sets forth for the Fiscal Years 2007-2016 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 annual average returns as of June 30, 2016, were 4.54% and 4.27%, respectively, on a market value basis.

**Table 24**
**Municipal Pension Fund**
**Annual Rates of Return**

| Year Ending June 30, | Market Value | Actuarial Value(1) | Assumed Rate of Return |
|---|---|---|---|
| 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% |
| 2014 | 15.7% | 4.8% | 7.85% |
| 2015 | 0.3% | 5.8% | 7.80% |
| 2016 | -3.2% | 4.5% | 7.75% |

Source: July 1, 2016 Valuation.

(1) Net of PAF. See "Pension Adjustment Fund" above. The actuarial values for 2007-2008 reflect a five-year smoothing; for 2009-2016, a ten-year smoothing.

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Asset Values. The following table sets forth as of the July 1 actuarial valuation date for the years 2007-2016 the actuarial and market values of assets in the Municipal Pension Fund and the actuarial value as a percentage of market value.

**Table 25**
**Actuarial Value of Assets vs. Market Value of Net Assets**
**(Dollar Amounts in Millions of USD)**

| Actuarial Valuation Date (July 1) | Actuarial Value of Assets[1] | Market Value of Net Assets[1] | Actuarial Value as a Percentage of Market Value |
|---|---|---|---|
| 2007 | $4,421.7 | $4,850.9 | 91.2% |
| 2008 | $4,623.6 | $4,383.5 | 105.5% |
| 2009 | $4,042.1 | $3,368.4 | 120.0% |
| 2010[2] | $4,380.9 | $3,650.7 | 120.0% |
| 2011[2] | $4,719.1 | $4,259.2 | 110.8% |
| 2012[2] | $4,716.8 | $4,151.8 | 113.6% |
| 2013 | $4,799.3 | $4,444.1 | 108.0% |
| 2014 | $4,814.9 | $4,854.3 | 99.2% |
| 2015 | $4,863.4 | $4,636.1 | 104.9% |
| 2016 | $4,936.0 | $4,350.8 | 113.5% |

Source: July 1, 2016 Valuation for Actuarial Value of Assets; 2007-2016 Actuarial Reports for Market Value of Net Assets.

(1) For purposes of this table, the Market Value of Net Assets excludes the PAF, which as of June 30, 2016 equaled $7.223 million. The Actuarial Value of Assets excludes that portion of the Municipal Pension Fund that is allocated to the PAF. The actuarial values for 2007-2008 reflect a five-year smoothing; for 2009-2016, a ten-year smoothing.

(2) 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. See Table 29 below.

Changes in Plan Net Position. The following table sets forth for the Fiscal Years 2012-2016, the additions, including employee (member) contributions, City contributions (including contributions from the Commonwealth), investment income and miscellaneous income, and deductions, including benefit payments and administration expenses, for the Municipal Pension Fund. Debt service payments on pension funding bonds (as described below at “Annual Contributions – Pension Bonds”) are made from the City’s General Fund, Water Operating Fund, and Aviation Operating Fund, but are not made from the Municipal Pension Fund, and therefore are not included in Table 26. In those years in which the investment income is less than anticipated, the Municipal Pension Fund may experience negative changes (total deductions greater than total additions), which, as the table reflects, did occur in Fiscal Year 2012. Furthermore, if unrealized gains are excluded from Table 26, resulting in a comparison of cash actually received against actual cash outlays, it results in a negative cash flow in each year, which is typical of a mature retirement system.

Contributions from the Commonwealth are provided pursuant to the provisions of Act 205. Any such contributions are required to be used to defray the cost of the City’s pension system. The amounts contributed by the Commonwealth for each of the last ten Fiscal Years are set forth in Table 29 below. The contributions from the Commonwealth are capped pursuant to Act 205, which provides that “[n]o municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount greater that 25% of the total amount of the general municipal pension system State aid available.”

Employee (member) contribution amounts reflect contribution rates as a percent of pay, which for the plan year beginning July 1, 2017, vary from 5.00% to 6.00% for police and fire employees, and from 3.10% to 7.00% for municipal employees excluding elected officials. These rates include the increases in contributions for certain municipal employees and elected officials currently in Plans 67, 87 and 87 Prime and elected officials as required by legislation. This legislation called for employees in these groups to pay an additional 0.5% of compensation from January 1, 2015 to December 31, 2015 and an additional 1.0% from January 1, 2016 onwards. New employees in these groups entering Plan 87 Municipal prime will pay an additional 1.0% of compensation which is included in the table below.

**Table 26**
**Changes in Net Position of the Municipal Pension Fund**
**Fiscal Years 2012-2016**
**(Amounts in Thousands of USD)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Beginning Net Assets (Market Value)[(1)] | $4,030,216 | $3,922,817 | $4,445,224 | $4,916,705 | $4,674,252 |
| Additions | | | | | |
| - Member Contributions | 49,979 | 49,614 | 53,722 | 58,658 | 67,055 |
| - City Contributions[(2)] | 556,031 | 781,823 | 553,179 | 577,195 | 660,247 |
| - Investment Income[(3)] | 13,297 | 442,667 | 677,380 | 11,790 | (147,424) |
| - Miscellaneous Income[(4)] | 1,224 | 3,134 | 4,089 | 2,049 | 1,742 |
| Total | $620,531 | $1,277,238 | $1,288,370 | $649,692 | $581,620 |
| Deductions | | | | | |
| - Benefits and Refunds | (712,684) | (746,490) | (808,597) | (881,666) | (889,343) |
| - Administration | (15,246)[(5)] | (8,341) | (8,292) | (10,479) | (8,554) |
| Total | $(727,930) | $(754,831) | $(816,889) | $(892,145) | $(897,897) |
| Ending Net Assets (Market Value)[(6)] | $3,922,817 | $4,445,224 | $4,916,705 | $4,674,252 | $4,357,975 |

Source: Municipal Pension Fund's audited financial statements.

(1) Includes the PAF, which is not available for funding purposes.

(2) City Contributions include pension contributions from the Commonwealth. See Table 29.

(3) Investment income is shown net of fees and expenses, and includes interest and dividend income, net appreciation (depreciation) in fair value of investments, and net gains realized upon the sale of investments.

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

(5) The $15.2 million is the number in the Fund's 2012 audited financial statements. However, it was subsequently determined that certain investment expenses had been misclassified as administration expenses. If those investment expenses were not included, the administration deduction for Fiscal Year 2012 would have been $8.5 million.

(6) For Fiscal Year 2012, does not include the $230 million total contribution receivable, which was paid back and is included in Fiscal Year 2013 in the "City Contributions" amount. See Table 29.

## Funded Status of the Municipal Pension Fund

The following two tables set forth as of the July 1 actuarial valuation date for the years 2007-2016, the asset value, the actuarial liability, the UAL, the funded ratio, covered payroll and UAL, as a percentage of covered payroll for the Municipal Pension Fund on actuarial and market value bases, respectively.

**Table 27**
**Schedule of Funding Progress (Actuarial Value)**
**(Dollar Amounts in Millions of USD)**

| Actuarial Valuation Date (July 1) | Actuarial Value of Assets[(1)] (a) | Actuarial Liability (b) | UAL (Actuarial Value) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAL as a % of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|
| 2007 | $4,421.7 | $8,197.2 | $3,775.5 | 53.9% | $1,351.8 | 279.3% |
| 2008 | $4,623.6 | $8,402.2 | $3,778.7 | 55.0% | $1,456.5 | 259.4% |
| 2009 | $4,042.1 | $8,975.0 | $4,932.9 | 45.0% | $1,463.3 | 337.1% |
| 2010 | $4,380.9 | $9,317.0 | $4,936.1 | 47.0% | $1,421.2 | 347.3% |
| 2011 | $4,719.1[(2)] | $9,487.5 | $4,768.4 | 49.7% | $1,371.3 | 347.7% |
| 2012 | $4,716.8[(2)] | $9,799.9 | $5,083.1 | 48.1% | $1,372.2 | 370.4% |
| 2013 | $4,799.3 | $10,126.2 | $5,326.9 | 47.4% | $1,429.7 | 372.6% |
| 2014 | $4,814.9 | $10,521.8 | $5,706.9 | 45.8% | $1,495.4 | 381.6% |
| 2015 | $4,863.4 | $10,800.4 | $5,937.0 | 45.0% | $1,597.8 | 371.6% |
| 2016 | $4,936.0 | $11,024.8 | $6,088.8 | 44.8% | $1,676.5 | 363.2% |

Source: July 1, 2016 Valuation.

(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.

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**Table 28**
**Schedule of Funding Progress (Market Value)**
**(Dollar Amounts in Millions of USD)**

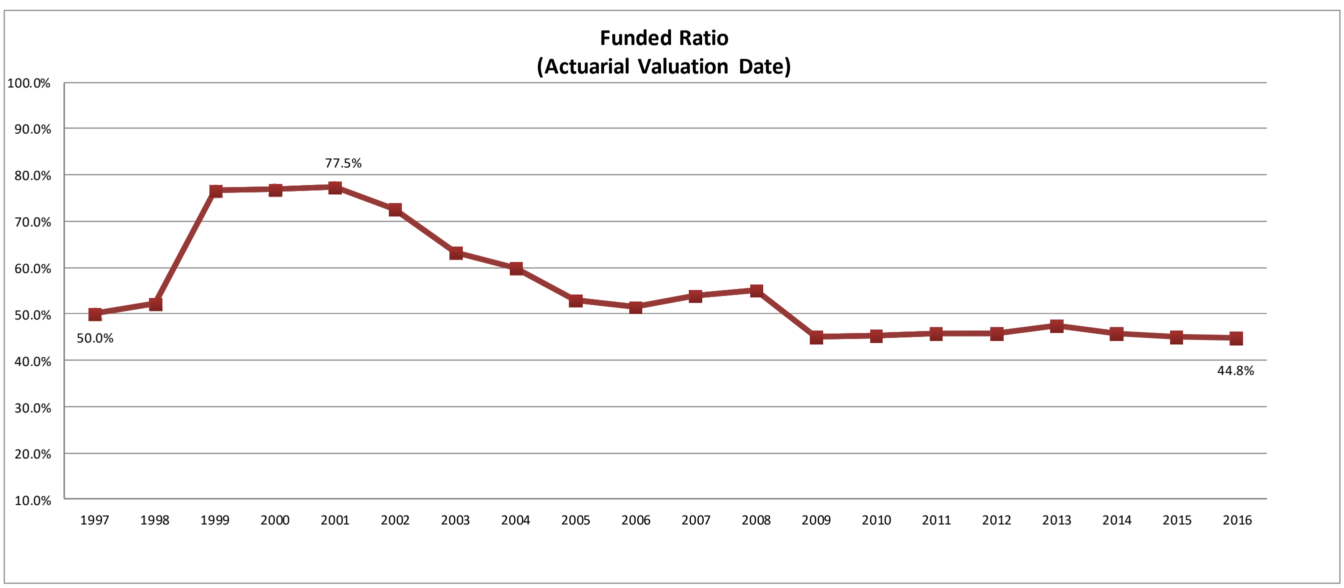
| Actuarial Valuation Date (July 1) | Market Value of Net Assets[1] (a) | Actuarial Liability (b) | UAL (Market Value) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAL as a % of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|
| 2007 | $4,850.9 | $8,197.2 | $3,346.3 | 59.2% | $1,351.8 | 247.5% |
| 2008 | $4,383.5 | $8,402.2 | $4,018.7 | 52.2% | $1,456.5 | 275.9% |
| 2009 | $3,368.4 | $8,975.0 | $5,606.6 | 37.5% | $1,463.3 | 383.2% |
| 2010 | $3,650.7 | $9,317.0 | $5,666.3 | 39.2% | $1,421.2 | 398.7% |
| 2011 | $4,259.2 | $9,487.5 | $5,228.3 | 44.9% | $1,371.3 | 381.3% |
| 2012 | $4,151.8 | $9,799.9 | $5,648.1 | 42.4% | $1,372.2 | 411.6% |
| 2013 | $4,444.1 | $10,126.2 | $5,682.1 | 43.9% | $1,429.7 | 397.4% |
| 2014 | $4,854.3 | $10,521.8 | $5,667.6 | 46.1% | $1,495.4 | 379.0% |
| 2015 | $4,636.1[2] | $10,800.4 | $6,164.3 | 42.9% | $1,597.8 | 385.8% |
| 2016 | $4,350.8[2] | $11,024.8 | $6,674.0 | 39.5% | $1,676.5 | 398.1% |

Source: 2007-2016 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.

(2) For purposes of this table, the Market Value of Net Assets excludes the PAF, which as of June 30, 2015 equaled $38,198,762, and as of June 30, 2016 equaled $7,223,000.

The following chart reflects the funded ratios, using the actuarial value of assets, for the 20-year period 1997 – 2016.



## Annual Contributions

*Annual Municipal Pension Contributions*

Table 29 shows the components of the City's annual pension contributions to the Municipal Pension Fund for the Fiscal Years 2007-2016.

**Table 29**
**Total Contribution to Municipal Pension Fund**
**(Dollar Amounts in Millions of USD)**

| Fiscal Year | General Fund Contribution (A) | Commonwealth Contribution (B) | Aggregate General Fund Contribution (A+B) | Water Fund Contribution | Aviation Fund Contribution | Grants Funding and Other Funds Contribution[1] | Contributions from Quasi-governmental Agencies | Pension Bond Proceeds | Total Contribution (C) | MMO (D) | MMO (Deferred) Makeup Payments | % of MMO Contributed (C/D) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $304.6 | $57.7 | $362.3 | $31.5 | $14.3 | $11.2 | $13.0 | $0.0 | $432.3 | $400.3 | | 108.0% |
| 2008 | $292.7 | $59.6 | $352.3 | $32.4 | $15.5 | $12.2 | $14.5 | $0.0 | $426.9 | $412.4 | | 103.5% |
| 2009 | $315.0 | $59.6 | $374.6 | $36.4 | $17.5 | $11.5 | $15.4 | $0.0 | $455.4 | $438.5 | | 103.9% |
| 2010 | $190.8[2] | $59.2 | $250.0 | $25.1 | $11.6 | $10.8 | $15.1 | $0.0 | $312.6[2] | $447.4 | $(150.0)[3] | 100.0%[4] |
| 2011 | $325.8[2] | $61.8 | $387.6 | $37.7 | $17.1 | $13.6 | $14.2 | $0.0 | $470.2[2] | $511.0 | $(80.0)[3] | 100.0%[4] |
| 2012 | $352.7 | $95.0 | $447.7 | $43.8 | $20.6 | $27.4 | $16.2 | $0.0 | $555.7 | $507.0 | | 109.7% |
| 2013 | $356.5 | $65.7 | $422.2 | $41.4 | $20.3 | $27.2 | $18.1 | $252.6[3] | $781.8 | $492.0 | $230.0[3] | 100.0%[4] |
| 2014 | $365.8 | $69.6 | $435.4 | $45.5 | $22.5 | $30.0 | $19.8 | $0.0 | $553.2 | $523.4 | | 105.7% |
| 2015 | $388.5 | $62.0 | $450.5 | $48.3 | $23.9 | $33.4 | $21.1 | $0.0 | $577.2 | $556.0 | | 103.8% |
| 2016 | $449.6 | $62.6 | $512.2 | $55.1 | $27.1 | $34.8 | $31.0 | $0.0 | $660.2 | $595.0 | | 110.0% |

(1) Other Funds Contributions represents contributions to the Municipal Pension Fund from the City's Special Gasoline Tax Fund, Community Development Block Grant Fund, Municipal Pension Fund, Acute Care Hospital Assessment Fund, and General Capital Improvement Fund.

(2) Reflects the actual cash outlays for Fiscal Year 2010 and Fiscal Year 2011, which do not include the deferred contributions authorized pursuant to Act 44. See "– Funding Requirements; Funding Standards – Pennsylvania Law" above for a discussion of pension contribution deferrals authorized pursuant to Act 44.

(3) As authorized pursuant to Act 44, the City deferred payments to the Municipal Pension Fund of $150 million in fiscal year 2010 and $80 million in fiscal year 2011. Those amounts were repaid in fiscal year 2013, in which year the City made a contribution of $252.6 million to the Municipal Pension Fund, consisting of $230 million of proceeds of Pension Bonds that were issued in October 2012 and $22.6 million in refunding savings from a refunding Pension Bond financing in December 2012. See " – Pension Bonds" below.

(4) Act 205 directs the Actuary, in performing the actuarial valuations, to disregard deferrals, and therefore for ease of presentation 100.0% is reflected in this column for both the years in which the deferrals occurred and the year in which the makeup payment was made.

*Annual Debt Service Payments on the Pension Bonds*

Pension funding bonds ("Pension Bonds") were issued in Fiscal Year 1999, at the request of the City, by PAID. Debt service on the Pension Bonds is payable pursuant to a Service Agreement between the City and PAID. The Service Agreement provides that the City is obligated to pay a service fee from its current revenues and the City covenanted in the agreement to include the annual amount in its operating budget and to make appropriations in such amounts as are required. If the City's revenues are insufficient to pay the full service fee in any Fiscal Year as the same becomes due and payable, the City has covenanted to include amounts not so paid in its operating budget for the ensuing Fiscal Year.

The 1999 Pension Bonds were issued in the principal amount of $1.3 billion, and the net proceeds were used, together with other funds of the City, to make a contribution in Fiscal Year 1999 to the Municipal Pension Fund in the amount of approximately $1.5 billion.

In October 2012, PAID, at the request of the City, issued Pension Bonds in the principal amount of $231.2 million, the proceeds of which were used principally to make the $230 million repayment of deferred contributions to the Municipal Pension Fund reflected in Table 29 above. These bonds had maturities of April 1, 2013 and 2014, and have been repaid.

In December 2012, PAID, at the request of the City, issued Pension Bonds in the approximate principal amount of $300 million, the proceeds of which were used to current refund a portion of the 1999 Pension Bonds. The refunding generated savings of approximately $22.6 million, which the City deposited into the Municipal Pension Fund.

Table 30 shows the components of the City's annual debt service payments on the Pension Bonds for the Fiscal Years 2007-2016.

**Table 30**
**Total Debt Service Payments on Pension Bonds**
**(Amounts in Millions of USD)**

| Fiscal Year | General Fund Payment | Water Fund Payment | Aviation Fund Payment | Other Funds Payment(1) | Grants Funding | Total Payment |
|---|---|---|---|---|---|---|
| 2007 | $74.6 | $7.2 | $3.2 | $0.5 | $1.3 | $86.8 |
| 2008 | $78.4 | $7.8 | $3.5 | $0.6 | $1.3 | $91.6 |
| 2009 | $84.4 | $7.2 | $3.3 | $0.6 | $1.3 | $96.8 |
| 2010 | $96.7 | $7.6 | $3.4 | $0.6 | $1.5 | $109.8 |
| 2011 | $97.7 | $10.3 | $4.6 | $0.8 | $1.5 | $114.9 |
| 2012 | $100.1 | $10.7 | $4.8 | $0.7 | $3.4 | $119.7 |
| 2013(2) | $196.6 | $21.5 | $10.1 | $1.3 | $3.8 | $233.3 |
| 2014(2) | $211.0 | $23.6 | $11.2 | $1.4 | $3.7 | $250.9 |
| 2015 | $107.7 | $12.6 | $5.9 | $0.8 | $4.0 | $131.0 |
| 2016 | $109.9 | $13.7 | $6.4 | $0.9 | $3.8 | $134.7 |

(1) Other Funds Payments represents the allocable portion of debt service payments on the City's Pension Bonds from the City's Special Gasoline Tax Fund, Community Development Block Grant Fund, Municipal Pension Fund, Acute Care Hospital Assessment Fund, and General Capital Improvement Fund.

(2) The increase in debt service payments in fiscal years 2013 and 2014 over the fiscal year 2012 amounts reflect the debt service payments on the Pension Bonds that were issued in October 2012. See " – Pension Bonds" below.

*Annual Pension Costs of the General Fund*

Table 31 shows the annual pension costs of the General Fund for the Fiscal Years 2007-2016, being the sum of the General Fund Contribution to the Municipal Pension Fund (column (A) in Table 29 above) and the General Fund debt service payments on Pension Bonds (Table 30 above).

**Table 31**
**Annual Pension Costs of the General Fund**
**(Amounts in Millions of USD)**

| Fiscal Year | General Fund Pension Fund Contribution (A)[1] | General Fund Pension Bond Debt Service Payment (B) | Annual Pension Costs (A+B) | Total General Fund Expenditures (C) | General Fund portion of Annual Pension Costs as % of Total General Fund Expenditures (A+B) / C |
|---|---|---|---|---|---|
| 2007 | $304.6 | $74.6 | $379.2 | $3,736.66 | 10.15% |
| 2008 | $292.7 | $78.4 | $371.1 | $3,919.84 | 9.47% |
| 2009 | $315.0 | $84.4 | $399.4 | $3,915.29 | 10.20% |
| 2010 | $190.8 | $96.7 | $287.5 | $3,653.73 | 7.87% |
| 2011 | $325.8 | $97.7 | $423.5 | $3,785.29 | 11.19% |
| 2012 | $352.7 | $100.1 | $452.8 | $3,484.88 | 12.99% |
| 2013 | $356.5 | $196.6 | $553.1 | $3,613.27 | 15.31% |
| 2014 | $365.8 | $211.0 | $576.8 | $3,886.56 | 14.84% |
| 2015 | $388.5 | $107.7 | $496.2 | $3,831.51 | 12.95% |
| 2016 | $449.6 | $109.9 | $559.5 | $4,015.80 | 13.93% |

(1) Does not include Commonwealth contribution. See Table 29.

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The following table shows the annual City contribution to the Municipal Pension Fund as a percentage of the covered employee payroll.

**Table 32**
**Annual City Contribution as % of Covered Employee Payroll**
**(Dollar Amounts in Thousands of USD)**

| Fiscal Year | Annual City Contribution | Fiscal Year Covered Employee Payroll(1) | ACC as % of Payroll |
|---|---|---|---|
| 2007 | $432,267 | $1,351,826 | 31.98% |
| 2008 | $426,934 | $1,456,520 | 29.31% |
| 2009 | $455,389 | $1,463,260 | 31.12% |
| 2010 | $312,556 | $1,421,151 | 21.99% |
| 2011 | $470,155 | $1,371,274 | 34.29% |
| 2012 | $555,690 | $1,372,174 | 40.50% |
| 2013 | $781,823 | $1,429,723 | 54.68% |
| 2014 | $553,179 | $1,495,421 | 36.99% |
| 2015 | $577,195 | $1,597,849 | 36.12% |
| 2016 | $660,247 | $1,676,412 | 39.38% |

Source: Municipal Pension Fund Financial Statements, June 30, 2016.

(1) The definition of "covered-employee payroll" in GASB 68 differs slightly from the "covered payroll" definition in GASB 27. See "PENSION SYSTEM – Funding Requirements; Funding Standards – *GASB; City Funding Policy*."

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**Actuarial Projections of Funded Status**

Cautionary Note. The information under this subheading, "Actuarial Projections of Funded Status," was prepared by Cheiron. The table below shows a five-year projection of MMO payments, Actuarial Value of Assets, Actuarial Liability, UAL, and Funded Ratio. The charts below show projections through 2036 of funded ratios and MMO contributions. All projections, whether for five years or for twenty years, are subject to actual experience deviating from the underlying assumptions and methods, and that is particularly the case for the charts below for the periods beyond the projections in the five-year table. **Projections and actuarial assessments are "forward looking" statements and are 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.**

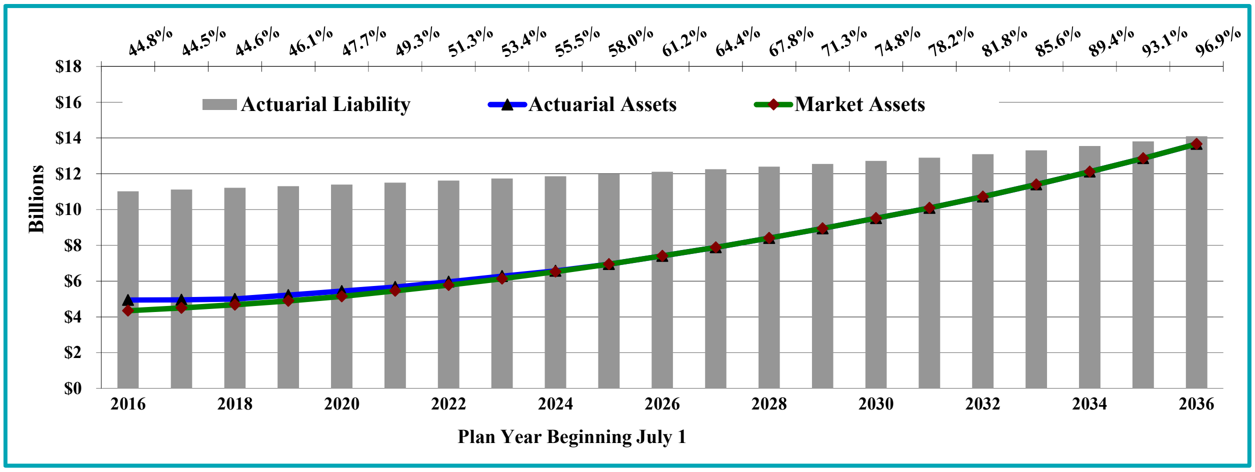
The projections are on the basis that all assumptions in the July 1, 2016 Valuation are exactly realized and the City makes all future MMO payments on schedule as required by Pennsylvania law, and must be understood in the context of the assumptions, methods and benefits in effect as described in the July 1, 2016 Valuation. Included among such assumptions are: (i) the rates of return for the Municipal Pension Fund over the projection period will equal 7.70% 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. The July 1, 2016 Valuation includes charts reflecting the contributions based on MMO (charts 1A and 2A), and charts reflecting the additional contributions in accordance with the Revenue Recognition Policy (chart 3A). The charts below reflect the MMO contributions without taking into account any additional contributions in accordance with the Revenue Recognition Policy. See the July 1, 2016 Valuation for a further discussion of the assumptions and methodologies used by the Actuary in preparing the July 1, 2016 Valuation and the following projections, all of which should be carefully considered in reviewing the projections. The July 1, 2016 Valuation is available for review on the Municipal Retirement System website. The table and charts below separately set forth estimates of sales tax revenues that will be deposited by the City into the Municipal Pension Fund, which were provided by the City to Cheiron at the time of the valuation. Please note that the sales tax contribution figures below do not reflect the updated sales tax contribution figures included in the Twenty-Sixth Five-Year Plan (see line 11 of the "Revenues and Expenditures – Summary of Operations Fiscal Years 2016 to 2022" on page 333 of the Twenty-Sixth Five-Year Plan). Cheiron has not analyzed and makes no representation regarding the validity of the sales tax revenue assumptions and estimates provided by the City. See "REVENUES OF THE CITY – Sales and Use Tax." Each of the tables and graphs that follow are part of the July 1, 2016 Valuation and such Valuation report should be referenced regarding the underlying benefits, methods, and assumptions utilized in the production of these values.

Five-Year Projection. For the following chart, dollar amounts are in millions of USD.

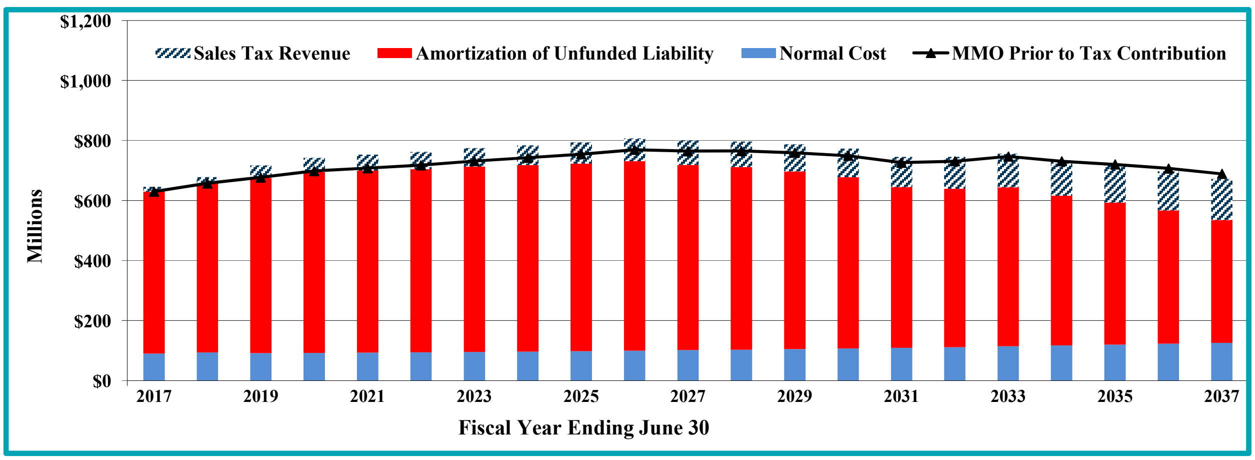
| Fiscal Year End | MMO | Sales Tax Contribution | Actuarial Value of Assets | Actuarial Liability | UAL | Funded Ratio |
|---|---|---|---|---|---|---|
| 2017 | $ 629.6 | $ 16.1 | $ 4,936.0 | $ 11,024.7 | $ 6,088.7 | 44.8% |
| 2018 | 657.0 | 21.1 | 4,955.1 | 11,126.1 | 6,171.0 | 44.5% |
| 2019 | 675.4 | 41.7 | 5,002.4 | 11,221.0 | 6,218.5 | 44.6% |
| 2020 | 694.7 | 47.3 | 5,214.9 | 11,309.2 | 6,094.2 | 46.1% |
| 2021 | 699.7 | 52.9 | 5,437.5 | 11,392.6 | 5,955.1 | 47.7% |
| 2022 | 704.7 | 57.2 | 5,672.3 | 11,506.9 | 5,834.6 | 49.3% |

Twenty-Year Projections.

Funded Ratio Chart:




MMO Contribution Chart:

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## OTHER POST-EMPLOYMENT BENEFITS

The City self-administers a single employer, defined benefit plan for post-employment benefits other than pension benefits ("OPEB"), and funds such plan on a pay-as-you-go basis. The City's OPEB plan provides for those persons who retire from the City and are participants in the Municipal Pension Plan: (i) post-employment healthcare benefits for a period of five years following the date of retirement and (ii) lifetime life insurance coverage ($7,500 for firefighters who retired before July 1, 1990; $6,000 for all other retirees). In general, retirees eligible for OPEB are those who terminate their employment after ten years of continuous service to immediately become pensioned under the Municipal Pension Plan.

To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by the union contract for AFSCME DC 33 and is self-insured for all other eligible pre-Medicare retirees. Aside from AFSCME DC 33, the City is responsible for the actual health care cost that is invoiced to the City's unions by their respective vendors. The actual cost can be a combination of self-insured claim expenses, premiums, ancillary services, and administrative expenses. Eligible union represented employees receive five years of coverage through their union's health fund. The City's funding obligation for pre-Medicare retiree benefits is the same as for active employees. Union represented and non-union employees may defer their retiree health coverage until a later date. For some groups, the amount that the City pays for their deferred health care is based on the value of the health benefits at the time the retiree claims the benefits, but for police and fire retirees who retired after an established date, the City pays the cost of five years of coverage when the retiree claims the benefits.

The annual payments made by the City for OPEB for the last five Fiscal Years are shown in Table 33 below.

**Table 33**
**Annual OPEB Payment**
**(Amounts in Thousands of USD)**

| Fiscal Year ended June 30, | Annual OPEB Payment |
|---|---|
| 2012 | $76,344 |
| 2013 | $57,096 |
| 2014 | $67,100 |
| 2015 | $95,300 |
| 2016 | $107,200 |

Source: See Note IV.3 to the City's audited Financial Statements for such Fiscal Years (as included in the City's CAFRs).

For financial reporting purposes, although the City funds OPEB on a pay-as-you-go basis, it is required to include in its financial statements (in accordance with GASB Statement No. 45) a calculation similar to that performed to calculate its pension liability. Pursuant to GASB 45, an annual required contribution is calculated which, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability over a period not to exceed 30 years. As of July 1, 2015, the date of the most recent actuarial valuation, the UAL for the City's OPEB was $1.77 billion, the covered annual payroll was $1.54 billion, and the ratio of UAL to the covered payroll was 114.8%. See Note IV.3 to the City's audited Financial Statements for the Fiscal Year ended June 30, 2016.

## PGW PENSION PLAN

### General

PGW consists of all the real and personal property owned by the City and used for the acquisition, manufacture, storage, processing, and distribution of gas within the City, and all property, books, and records employed and maintained in connection with the operation, maintenance, and administration of PGW. The City Charter provides for a Gas Commission (the "Gas Commission") to be constituted and appointed in accordance with the provisions of contracts between the City and the operator of PGW as may from time to time be in effect, or, in the absence of a contract, as may be provided by ordinance. The Gas Commission consists of the City Controller, two members appointed by City Council and two members appointed by the Mayor.

PGW is operated by PFMC, pursuant to an agreement between the City and PFMC dated December 29, 1972, as amended, authorized by ordinances of City Council (the "Management Agreement"). Under the Management Agreement, various aspects of PFMC's management of PGW are subject to review and approval by the Gas Commission. The PUC has the regulatory responsibility for PGW with regard to rates, safety, and customer service.

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 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. At July 1, 2016, the PGW Pension Plan membership total was 3,772, comprised of: (i) 2,521 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them; and (ii) 1,251 participants, of which 1,036 were vested and 215 were nonvested.

### PGW Pension Plan

The PGW Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after five years of credited service. Retirement payments for vested employees commence: (i) at age 65 and five years of credited service; (ii) age 55 and 15 years of credited service; or (iii) without regard to age, after 30 years of credited service. For covered employees hired prior to May 21, 2011 (union employees) or prior to December 21, 2011 (non-union employees), PGW pays the entire cost of the PGW Pension Plan. Union employees hired on or after May 21, 2011 and non-union employees hired on or after December 21, 2011 have the option to participate in the PGW Pension Plan and contribute 6% of applicable wages, or participate in a plan established in compliance with Section 401(a) of the Internal Revenue Code (deferred compensation plan) and have PGW contribute 5.5% of applicable wages.

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, together with investment earnings and employee contributions required for new hires after December 2011 who elect to participate in the PGW Pension Plan. Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance. The pension payments are treated as an operating expense of PGW and are included as a component of PGW's base rate. The PUC approves all items that are to be included in PGW's base rates. PGW filed its current rate case with the PUC on February 27, 2017.

Effective October 2015, payments to beneficiaries of the PGW Pension Plan are made by the PGW Retirement Reserve Fund. Prior to October 2015, payments to beneficiaries of the PGW Pension Plan were made by PGW through its payroll system. The financial statements for the PGW Pension Plan for the fiscal year ended June 30, 2016, show an amount due to PGW of approximately $6.0 million, which represents the cumulative excess of payments made to the retirees and administrative expenses incurred by PGW, over the sum of PGW's required annual contribution and reimbursements received from the PGW Pension Plan.

**Pension Costs and Funding**

PGW pays an annual amount that is projected to be sufficient to cover its normal cost and an amortization of the PGW Pension Plan's UAL. The following table shows the normal cost, the amortization payment, and the resulting annual required contribution as of the last five actuarial valuation dates for the PGW Pension Plan. PGW has been using a 20-year open amortization period (and the payments in Table 34 are on the basis of a 20-year open amortization). Commencing in PGW's fiscal year 2016, PGW will calculate an annual required contribution on the basis of both a 20-year open amortization period and a 30-year closed amortization period, and will contribute the higher of the two amounts. See "– Projections of Funded Status" below. An open amortization period is one that begins again or is recalculated at each actuarial valuation date. With a closed amortization period, the unfunded liability is amortized over a specific number of years to produce a level annual payment. Because the final amortization date is fixed, if all actuarial assumptions are achieved, the unfunded liability would decline to zero as of the final amortization date. To the extent future experience differs from the assumptions used to establish the 30-year fixed amortization payment schedule, new amortization bases attributable to a particular year's difference would be established and amortized over their own 30-year schedule.

**Table 34**
**PGW Pension – Annual Required Contributions**
**(Dollar Amounts in Thousands of USD)**

| **Calculation of ARC for the 12-month period ended:** | **Normal Cost**[(1)] (A) | **Amortization Payment**[(1)] (B) | **ARC**[(1), (2)] (A + B) | **Payments to Beneficiaries**[(3)] |
|---|---|---|---|---|
| 9/1/2012 | $8,782 | $14,357 | $23,139 | $40,122 |
| 9/1/2013 | $8,533 | $15,127 | $23,660 | $41,614 |
| 9/1/2014 | $8,852 | $12,130 | $20,982 | $42,913 |
| 7/1/2015 | $7,859 | $18,063 | $25,922 | $46,917 |
| 7/1/2016 | $7,992 | $20,238 | $28,230 | $50,447 |

(1) Source: The Actuarial Valuation Report for the Plan Year July 1, 2016 – June 30, 2017 for the PGW Pension Plan.

(2) As described above, until October 2015, PGW did not make a net cash contribution to the PGW Pension Plan, but rather paid beneficiaries through its payroll system, and then was reimbursed by the Plan. Effective October 2015, payments to beneficiaries of the PGW Pension Plan are made by the PGW Retirement Reserve Fund. Each ARC is the sum reflected in this table, but the "Calculated Mid-Year Contribution" in Tables 36 and 37 more closely approximates the actual pension contributions made by PGW.

(3) Source: For 2012 and 2013, PGW's CAFR for the fiscal years ended August 31, 2012 and 2013, respectively. For 2014-2015, PGW's CAFR for the fiscal year ended August 31, 2015. For 2016, the audited financial statements for PGW for the fiscal years ended August 31, 2016 and 2015.

Although PGW has paid its annual required contribution each year, the market value of assets for the PGW Pension Plan is less than the actuarial accrued liability, as shown in the next table.

**Table 35**
**Schedule of Pension Funding Progress**
**(Dollar Amounts in Thousands of USD)[1]**

| Actuarial Valuation Date | Market Value of Assets | Actuarial Liability | UAL (Market Value) | Funded Ratio |
|---|---|---|---|---|
| 9/1/2012 | $437,780 | $585,632 | $147,852 | 74.75% |
| 9/1/2013 | $462,691 | $623,612 | $160,921 | 74.20% |
| 9/1/2014 | $514,944 | $643,988 | $129,044 | 79.96% |
| 7/1/2015 | $510,719 | $706,704 | $195,985 | 72.27% |
| 7/1/2016[2] | $483,259 | $736,078 | $252,819 | 65.65% |

(1) Source: The Actuarial Valuation Report for the Plan Year July 1, 2016 – June 30, 2017 for the PGW Pension Plan.

(2) On July 1, 2016, the actuarial value of assets was $511.3 million, resulting in a UAL of $224.8 million, and a funded ratio of 69.46%. See Tables 36 and 37.

The current significant actuarial assumptions for the PGW Pension Plan are: (i) investment return rate of 7.30% compounded annually; (ii) salary increases assumed to reach 4.5% per year; and (iii) retirements that are assumed to occur, for those with 30 or more years of service, at a rate of 15% at ages 55 to 60, 30% at age 61, 50% at ages 62-69, and 100% at age 70 and older.

Since the last actuarial valuation performed as of July 1, 2015, the demographics of the plan participants have changed as follows: (i) the number of plan participants has decreased 0.7%, (ii) the total number of actives in the plan decreased 1.8%, (iii) total payroll has decreased 4.5%, (iv) average pay has decreased 2.8%, and (v) average age of active plan participants increased 1.2%. Effective September 1, 2016, PGW began utilizing an investment rate of return of 7.30% for the PGW Pension Plan. The assumed investment rate return for the period July 1, 2015 – August 31, 2016 was 7.65%. Such reduction in the assumed investment rate of return increased the measurement of plan liabilities by approximately 3.6% and increased the annual contribution by $2,407,000 (2.6% of pay). The foregoing, among other factors, have resulted in an increase in the UAL from approximately $196.0 million at July 1, 2015 to approximately $252.8 million at July 1, 2016.

PGW uses a September 1 – August 31 fiscal year, while the PGW Pension Plan uses a July 1 – June 30 fiscal year (the same as the City's fiscal year). The last two actuarial valuation reports for the PGW Pension Plan utilized a plan year of July 1 to June 30. This is reflected in Table 35 above.

The PGW Pension Plan actuary prepared a separate actuarial valuation report ("GASB 67 Report") for the fiscal year ending June 30, 2016, for purposes of plan reporting information under Governmental Accounting Standards Board Statement No. 67, "Financial Reporting for Pension Plans." The GASB 67 Report shows for the fiscal year ending June 30, 2016, an unfunded liability of approximately $296.1 million (rather than the approximately $252.8 million reflected in Table 35), which results in a funded ratio of 62.00%. In addition, that report provides an interest rate sensitivity, which shows that were the investment rate to be 6.30% (1% lower than the assumed investment rate of 7.30%), the unfunded liability would be approximately $387.1 million.

**Projections of Funded Status**

The information under this subheading, "Projections of Funded Status," is extracted from tables prepared by Aon Hewitt, as actuary to the PGW Pension Plan, which were included in their "Actuarial Valuation Report for the Plan Year July 1, 2016 – June 30, 2017," dated October 28, 2016. The charts show 10-year projections, using both the current amortization method (20-year, open) and the alternative amortization method (30-year, fixed). See "– Pension Costs and Funding" above. Projections are subject to actual experience deviating from the underlying assumptions and methods. **Projections and actuarial assessments are "forward looking" statements and are based upon assumptions that 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.**

**Table 36**
**Schedule of Prospective Funded Status (20-Year Open Amortization)**
**(Dollar Amounts in Thousands of USD)**

| Actuarial Valuation Date (July 1) | Actuarial Value of Assets | Actuarial Accrued Liability | UAL (Actuarial Value) | Calculated Mid-Year Contribution(1), (2) | Funded Ratio |
|---|---|---|---|---|---|
| 2016 | $511,289 | $736,078 | $224,789 | $29,260 | 69.46% |
| 2017 | $516,312 | $743,161 | $226,849 | $29,201 | 69.48% |
| 2018 | $520,981 | $749,322 | $228,341 | $29,227 | 69.53% |
| 2019 | $525,256 | $754,759 | $229,502 | $29,361 | 69.59% |
| 2020 | $529,287 | $760,354 | $231,067 | $29,267 | 69.61% |
| 2021 | $539,874 | $764,209 | $224,335 | $28,403 | 70.64% |
| 2022 | $549,285 | $766,619 | $217,334 | $27,526 | 71.65% |
| 2023 | $557,447 | $767,850 | $210,403 | $26,709 | 72.60% |
| 2024 | $564,315 | $768,739 | $204,424 | $25,598 | 73.41% |
| 2025 | $569,580 | $769,172 | $199,591 | $25,018 | 74.05% |

(1) Source: The Actuarial Valuation Report for the Plan Year July 1, 2016 – June 30, 2017 for the PGW Pension Plan.

(2) PGW makes monthly contributions to the PGW Retirement Reserve Fund. The actuary's report assumes contributions at the beginning, middle, and end of the plan year. PGW utilizes the mid-year contribution level to approximate the actual funding methodology.

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**Table 37**
**Schedule of Prospective Funded Status (30-Year Closed Amortization)**
**(Dollar Amounts in Thousands of USD)**

| Actuarial Valuation Date (July 1) | Actuarial Value of Assets | Actuarial Accrued Liability | UAL (Actuarial Value) | Calculated Mid-Year Contribution[(1), (2)] | Funded Ratio |
|---|---|---|---|---|---|
| 2016 | $511,289 | $736,078 | $224,789 | $26,470 | 69.46% |
| 2017 | $516,312 | $743,161 | $226,849 | $26,587 | 69.48% |
| 2018 | $520,981 | $749,322 | $228,341 | $26,806 | 69.53% |
| 2019 | $525,256 | $754,759 | $229,502 | $27,157 | 69.59% |
| 2020 | $529,287 | $760,354 | $231,067 | $27,293 | 69.61% |
| 2021 | $539,874 | $764,209 | $224,335 | $26,792 | 70.64% |
| 2022 | $549,285 | $766,619 | $217,334 | $26,298 | 71.65% |
| 2023 | $557,447 | $767,850 | $210,403 | $25,880 | 72.60% |
| 2024 | $564,315 | $768,739 | $204,424 | $25,178 | 73.41% |
| 2025 | $569,580 | $769,172 | $199,591 | $25,013 | 74.05% |

(1) Source: The Actuarial Valuation Report for the Plan Year July 1, 2016 – June 30, 2017 for the PGW Pension Plan.

(2) PGW makes monthly contributions to the PGW Retirement Reserve Fund. The actuary's report assumes contributions at the beginning, middle, and end of the plan year. PGW utilizes the mid-year contribution level to approximate the actual funding methodology.

**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 Fiscal Year 2016 CAFR.

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## PGW OTHER POST-EMPLOYMENT BENEFITS

PGW provides post-employment healthcare and life insurance benefits to its participating retirees and their beneficiaries and dependents. 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.

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. 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 (the "OPEB Surcharge"), PGW established the trust in July 2010, and began funding the trust in accordance with the Rate Settlement in September 2010. The Rate Settlement provides that PGW shall deposit $15.0 million annually for an initial five-year period 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. In PGW's 2015-2016 Gas Cost Rate ("GCR") proceeding, PGW proposed to continue its OPEB Surcharge. The parties to the GCR proceeding submitted a settlement agreement continuing the OPEB Surcharge at the same level of revenue ($16 million annually) and funding ($18.5 million annually). Such settlement agreement was approved by the PUC.

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Table 38 provides detail of actual PGW OPEB payments for the last five PGW Fiscal Years and projected PGW OPEB payments for PGW Fiscal Years 2017-2021.

**Table 38**
**PGW OPEB Payments**
**(Amounts in Thousands of USD)**

| | Fiscal Year ended August 31, | Healthcare | Life Insurance | OPEB Trust | Total |
|---|---|---|---|---|---|
| Actual | | | | | |
| | 2012 | $24,503 | $1,483 | $18,500 | $44,486 |
| | 2013 | $22,180 | $1,562 | $18,500 | $42,242 |
| | 2014 | $24,247 | $1,615 | $18,500 | $44,362 |
| | 2015 | $28,598 | $1,749 | $18,500 | $48,847 |
| | 2016[(1)] | $29,300 | $1,800 | $18,500 | $49,551 |
| Projections | | | | | |
| | 2017 | $30,971 | $1,700 | $18,500 | $51,171 |
| | 2018 | $34,449 | $1,700 | $18,500 | $54,649 |
| | 2019 | $37,659 | $1,700 | $18,500 | $57,859 |
| | 2020 | $41,010 | $1,700 | $18,500 | $61,210 |
| | 2021 | $44,661 | $1,700 | $18,500 | $64,861 |

(1) For PGW Fiscal Year 2016, "Healthcare" and "Life Insurance" are rounded figures and, as such, will not sum. "Total" is an actual figure.

Table 39 is the schedule of PGW OPEB funding progress, as of the actuarial valuation date of August 31 for 2012-2016.

**Table 39**
**Schedule of OPEB Funding Progress**
**(Dollar Amounts in Thousands of USD)**

| Actuarial valuation date (August 31) | Actuarial value of assets | Actuarial liability | Unfunded actuarial liability | Funded ratio |
|---|---|---|---|---|
| 2012 | $38,860 | $443,982 | $405,122 | 8.8% |
| 2013 | $61,796 | $436,527 | $374,731 | 14.2% |
| 2014 | $90,838 | $450,289 | $359,451 | 20.2% |
| 2015 | $104,318 | $505,434 | $401,116 | 20.6% |
| 2016 | $131,868 | $489,725 | $357,857 | 26.9% |

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 Fiscal Year 2016 CAFR.

## CITY CASH MANAGEMENT AND INVESTMENT POLICIES

### General Fund Cash Flow

Because the receipt of revenues into the General Fund generally lags behind expenditures from the General Fund during each Fiscal Year, the City issues notes in anticipation of General Fund revenues and makes payments from the Consolidated Cash Account (described below) to finance its on-going operations.

The timing imbalance referred to above results from a number of factors, principally the following: (i) Real Estate Taxes, BIRT, and certain other taxes are not due until the latter part of the Fiscal Year; and (ii) 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 has issued, or PICA has issued on behalf of the City, tax and revenue anticipation notes in each Fiscal Year since Fiscal Year 1972. Each issue was repaid when due, prior to the end of the Fiscal Year. The City issued $175 million of tax and revenue anticipation notes on October 19, 2016, which matured on June 30, 2017 and were paid in full.

The repayment of the tax and revenue anticipation notes is funded through cash available in the General Fund.

### Consolidated Cash

The Act of the General Assembly of June 25, 1919 (Pa. P.L. 581, No. 274, Art. XVII, § 6) authorizes the City to make temporary inter-fund loans between certain operating and capital funds. The City maintains a Consolidated Cash Account for the purpose of pooling the cash and investments 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 Aviation Fund, the Water Fund, and certain other restricted purpose funds). A separate accounting is maintained to record the equity of each member fund that participates in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to the procedures described below.

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, an advance is made from the Consolidated Cash Account, in an amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a member fund that has negative equity 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 to make investments that preserve principal while striving to obtain the maximum rate of return. Pursuant to the City 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 investment 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 in accordance with the applicable bond documents and the investment practice is guided by administrative direction of the City Treasurer per the Investment Committee and the Investment Policy (as described below). 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 Commonwealth reporting.

Investment guidelines for the City are embodied in section 19-202 of the Philadelphia Code. In furtherance of these guidelines, as well as Commonwealth and federal legislative guidelines, the Director of Finance adopted a written Investment Policy (the "Policy") that went into effect in August 1994 and was most recently revised in September 2014. The Policy supplements other legal requirements and establishes guiding principles for the overall administration and effective management of all of the City's monetary funds (except the Municipal Pension Fund, the PGW Retirement Reserve Fund, the PGW OPEB Trust and the PGW Workers' Compensation Reserve Fund).

The Policy delineates the authorized investments as authorized by the Philadelphia Code 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 U.S. agency or instrumentality, all of investment grade rating or better and with maturity limitations.

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 U.S. agency or instrumentality are limited to no more than 5% of the total portfolio.

U.S. government securities carry no limitation as to the percent of the total portfolio per issuer. U.S. agency securities are limited to no more than 33% 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 U.S. agency or instrumentality are limited to no more than 3% of the total portfolio per issuer.

The Policy provides for an ad hoc Investment Committee consisting of the Director of Finance, the City Treasurer and one representative each from the Water Department, the Division of Aviation, and PGW. 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 (excluding U.S. Treasury and U.S. agency floating rate securities) 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

### General

Section 12 of Article IX of the Constitution of the Commonwealth provides that the authorized debt of the City "may be increased in such amount that the total debt of [the] 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 [the] 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." The Supreme Court of Pennsylvania has held that bond authorizations once approved by the voters need not be reduced as a result of a subsequent decline in the average assessed value of City property. The general obligation debt subject to the limitation described in this paragraph is referred to herein as "Tax-Supported Debt."

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.

For purposes of this Official Statement, Tax-Supported Debt and Self-Supporting Debt are referred to collectively as "General Obligation Debt." The term "General Fund-Supported Debt" is comprised of: (i) General Obligation Debt; and (ii) PAID, PMA, PPA, and PRA bonds.

Using the methodology described above, as of June 30, 2017, the Constitutional debt limitation for Tax-Supported Debt was approximately $6,629,516,000. The total amount of authorized debt applicable to the debt limit was $1,952,005,000, including $873,632,000 of authorized but unissued debt, leaving a legal debt margin of $4,677,511,000. Based on the foregoing figures, the calculation of the legal debt margin is as follows:

**Table 40**
**General Obligation Debt**
**June 30, 2017**
**(Amounts in Thousands of USD)**

| | |
|---|---|
| Authorized, issued and outstanding | $1,431,705 |
| Authorized and unissued | 873,632 |
| Total | $2,305,337 |
| | |
| Less: Self-Supporting Debt | ($353,332) |
| Less: Serial bonds maturing within a year | 0 |
| Total amount of authorized debt applicable to debt limit | 1,952,005 |
| Legal debt limit | 6,629,516 |
| Legal debt margin | $4,677,511 |

As a result of the implementation of the City's AVI, the assessed value of taxable real estate within the City has increased substantially. See "REVENUES OF THE CITY – Real Property Taxes Assessment and Collection." The $6.630 billion Constitutional debt limit calculation includes four years of property values certified under the City's AVI program, and six years of property values under the City's former property valuation process. Assuming no increase or decrease in property values used to calculate the Constitutional debt limit in Table 40, the Constitutional debt limit is estimated to be $13.411 billion by 2027.

The City is also empowered by statute to issue revenue bonds and, as of June 30, 2017, had outstanding $1,996,916,000 aggregate principal amount of Water and Wastewater Revenue Bonds ("Water and Wastewater Bonds"), $834,850,000, aggregate principal amount of Gas Works Revenue Bonds, and $1,186,465,000 aggregate principal amount of Airport Revenue Bonds. As of June 30, 2017, the principal amount of PICA bonds outstanding was $213,945,000. The City has also enacted an ordinance authorizing the issuance of approximately $350 million aggregate principal amount in commercial paper for the Division of Aviation, and ordinances authorizing the issuance of up to $270 million of Gas Works Revenue Notes to finance working capital and capital projects for PGW and the issuance of up to $300 million of Gas Works Revenue Bonds to finance capital projects for PGW.

**Short-Term Debt**

The City issued $175 million of tax and revenue anticipation notes on October 19, 2016, which matured on June 30, 2017 and were paid in full. As provided in the PICA Act, the City's tax and revenue anticipation notes are general obligations of the City, but do not constitute debt of the City subject to the limitations of the Constitutional debt limit. See "CITY CASH MANAGEMENT AND INVESTMENT POLICIES – General Fund Cash Flow."

**Long-Term Debt**

The following table presents a synopsis of the bonded debt of the City and its component units as of the date indicated. Of the total balance of the City's general obligation bonds issued and outstanding as of June 30, 2017, approximately 26% is scheduled to mature within five Fiscal Years and approximately 54% is scheduled to mature within ten Fiscal Years. When PICA's outstanding bonds are included with the City's general obligation bonds, approximately 60% is scheduled to mature within ten Fiscal Years.

**Table 41**
**Bonded Debt – City of Philadelphia and Component Units**
**(as of June 30, 2017)**
**(Amounts in Thousands of USD)[(1), (2)]**

| | | | | |
|---|---|---|---|---|
| **General Obligation Debt and PICA Bonds** | | | | |
| General Obligation Bonds | | $1,431,705 | | |
| PICA Bonds | | 213,945 | | |
| **Subtotal: General Obligation Debt and PICA Bonds** | | | **$1,645,650** | |
| **Other General Fund-Supported Debt[(3)]** | | | | |
| Philadelphia Municipal Authority | | | | |
| Criminal Justice Center | $33,100 | | | |
| Juvenile Justice Center | 87,325 | | | |
| Public Safety Campus | 65,155 | | | |
| Fleet Management Equipment Lease | 4,429 | | | |
| Energy Conservation | 9,915 | | | |
| | | $199,924 | | |
| Philadelphia Authority for Industrial Development | | | | |
| Pension capital appreciation bonds | $465,351 | | | |
| Pension fixed rate bonds | 761,655 | | | |
| Stadiums | 262,830 | | | |
| Library | 5,570 | | | |
| Cultural and Commercial Corridor | 89,205 | | | |
| One Parkway | 32,165 | | | |
| Philadelphia School District[(4)] | 14,680 | | | |
| | | $1,631,456 | | |
| Parking Authority | | 11,660 | | |
| Redevelopment Authority | | 174,670 | | |
| **Subtotal: Other General Fund-Supported Debt** | | | **$2,017,710** | |
| **Revenue Bonds** | | | | |
| Water Fund | | $1,996,916 | | |
| Aviation Fund | | 1,186,465 | | |
| Gas Works | | 834,850 | | |
| **Subtotal: Revenue Bonds** | | | **$4,018,231** | |
| **Grand Total** | | | | **$7,681,591** |

(1) Unaudited; figures may not sum due to rounding.
(2) For tables setting forth a ten-year historical summary of Tax-Supported Debt of the City and the School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness as of June 30, 2016, see the Fiscal Year 2016 CAFR.
(3) The principal amount outstanding relating to the PAID 1999 Pension Obligation Bonds, Series B (capital appreciation bonds) is reflected as the accreted value thereon as of June 30, 2017.
(4) This financing was undertaken by the City through PAID for the benefit of the School District and does not represent debt of the School District. For more information on this financing, see "REVENUES OF THE CITY – Sales and Use Tax" and "EXPENDITURES OF THE CITY – City Payments to School District."

**Table 42**
**City of Philadelphia**
**Annual Debt Service on General Fund-Supported Debt**
**(as of June 30, 2017)**
**(Amounts in Millions of USD)**[1]

| | General Obligation Debt[2] | | | Other General Fund-Supported Debt[4] | | | Aggregate General Fund-Supported Debt | | |
|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Principal | Interest[3] | Total | Principal | Interest[5] | Total | Principal | Interest | Total |
| 2018 | 70.82 | 68.73 | 139.55 | 108.14 | 139.22 | 247.36 | 178.96 | 207.95 | 386.91 |
| 2019 | 74.45 | 65.18 | 139.63 | 74.65 | 138.74 | 213.39 | 149.10 | 203.92 | 353.02 |
| 2020 | 76.65 | 61.51 | 138.15 | 65.56 | 138.61 | 204.17 | 142.21 | 200.12 | 342.32 |
| 2021 | 69.97 | 57.94 | 127.91 | 80.75 | 123.50 | 204.25 | 150.72 | 181.44 | 332.16 |
| 2022 | 73.12 | 54.45 | 127.57 | 78.56 | 125.71 | 204.27 | 151.68 | 180.16 | 331.84 |
| 2023 | 77.80 | 50.65 | 128.45 | 115.98 | 88.28 | 204.26 | 193.78 | 138.93 | 332.71 |
| 2024 | 81.68 | 46.59 | 128.27 | 114.74 | 88.28 | 203.02 | 196.42 | 134.87 | 331.29 |
| 2025 | 85.67 | 42.36 | 128.03 | 119.20 | 83.84 | 203.05 | 204.87 | 126.20 | 331.08 |
| 2026 | 82.42 | 38.14 | 120.55 | 134.81 | 67.43 | 202.24 | 217.23 | 105.57 | 322.79 |
| 2027 | 86.38 | 33.88 | 120.26 | 159.97 | 44.41 | 204.38 | 246.35 | 78.29 | 324.64 |
| 2028 | 91.08 | 29.57 | 120.65 | 165.11 | 35.16 | 200.27 | 256.19 | 64.73 | 320.92 |
| 2029 | 65.73 | 25.87 | 91.60 | 273.16 | 18.18 | 291.34 | 338.89 | 44.05 | 382.94 |
| 2030 | 81.49 | 22.33 | 103.81 | 53.30 | 8.60 | 61.90 | 134.79 | 30.93 | 165.71 |
| 2031 | 86.30 | 18.27 | 104.57 | 55.77 | 6.14 | 61.91 | 142.07 | 24.41 | 166.48 |
| 2032 | 90.66 | 13.99 | 104.65 | 15.23 | 4.08 | 19.30 | 105.89 | 18.07 | 123.95 |
| 2033 | 55.58 | 10.40 | 65.98 | 7.33 | 3.55 | 10.87 | 62.91 | 13.95 | 76.85 |
| 2034 | 43.80 | 7.85 | 51.65 | 7.66 | 3.20 | 10.86 | 51.46 | 11.05 | 62.51 |
| 2035 | 29.55 | 5.98 | 35.53 | 8.02 | 2.85 | 10.87 | 37.57 | 8.83 | 46.40 |
| 2036 | 31.00 | 4.54 | 35.53 | 8.40 | 2.47 | 10.87 | 39.40 | 7.01 | 46.40 |
| 2037 | 17.33 | 3.33 | 20.66 | 8.79 | 2.08 | 10.87 | 26.12 | 5.41 | 31.53 |
| 2038 | 17.79 | 2.42 | 20.21 | 9.21 | 1.66 | 10.87 | 27.00 | 4.08 | 31.08 |
| 2039 | 18.67 | 1.55 | 20.21 | 9.65 | 1.22 | 10.87 | 28.32 | 2.77 | 31.08 |
| 2040 | 7.58 | 0.96 | 8.54 | 3.31 | 0.77 | 4.08 | 10.89 | 1.73 | 12.62 |
| 2041 | 7.93 | 0.61 | 8.54 | 3.45 | 0.62 | 4.07 | 11.38 | 1.23 | 12.61 |
| 2042 | 8.34 | 0.21 | 8.54 | 3.60 | 0.48 | 4.07 | 11.94 | 0.69 | 12.61 |
| 2043 | 0 | 0 | 0 | 3.75 | 0.33 | 4.08 | 3.75 | 0.33 | 4.08 |
| 2044 | 0 | 0 | 0 | 3.91 | 0.17 | 4.08 | 3.91 | 0.17 | 4.08 |
| **Total** | **$1,431.79** | **$667.31** | **$2,099.04** | **$1,691.98** | **$1,129.57** | **$2,821.54** | **$3,123.77** | **$1,796.88** | **$4,920.58** |

(1) Does not include letter of credit fees. Figures may not sum due to rounding.
(2) Includes both Tax-Supported Debt and Self-Supporting Debt. See "– General." Does not include PICA Bonds.
(3) Assumes interest rate on hedged variable rate bonds to be the associated fixed swap rate.
(4) Includes PAID, PMA, PPA, and PRA bonds, with capital appreciation bonds including only actual amounts payable. The original issuance amount of such capital appreciation bonds is included under the "Principal" column in the Fiscal Year such bonds mature and the full accretion amount at maturity less the original issuance amount is included in the "Interest" column in the Fiscal Year such bonds mature.
(5) Assumes interest rate on hedged variable rate bonds to be the associated fixed swap rate, plus any fixed spread. Net of capitalized interest on PAID 2012 Service Agreement Revenue Refunding Bonds.

**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 in Table 41. The City budgets all other long-term debt-related obligations as a single budget item with the exception of PPA, which has a budget of $1,335,293 for Fiscal Year 2017.

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 (Pa. P.L. 103, No. 31 (1985)), 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 amount paid by the City in Fiscal Year 2016 was $30.3 million. The budgeted amount and current estimate for Fiscal Year 2017 is $29.9 million.

In the first quarter of Fiscal Year 2016, the City entered into a service agreement supporting PAID's guaranty of a $15 million letter of credit securing the funding of certain costs related to the 2016 Democratic National Convention.

**PICA Bonds**

PICA has issued 11 series of bonds at the request of the City (the "PICA Bonds"). PICA no longer has authority under the PICA Act to issue bonds for new money purposes, but may refund bonds previously issued. As of June 30, 2017, the principal amount of PICA Bonds outstanding was $213,945,000. The final maturity date for such PICA Bonds is June 15, 2023. The proceeds of the PICA Bonds were used to: (i) 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 of the City's general obligation bonds; (ii) refund other PICA Bonds; and (iii) 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 execution of the PICA Agreement, as so authorized by the PICA Act, 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"), which continues in effect. The PICA Tax secures the PICA Bonds. Pursuant to the PICA Act, at such time when no PICA Bonds are outstanding, the PICA Tax will expire. At any time, the City is authorized to increase for its own use its various taxes, including its wage, earnings, and net profits taxes on City residents and could do so upon the expiration of the PICA Tax. Certain taxes, such as sales, liquor, and hotel taxes, among others, cannot be increased by the City without Commonwealth approval.

The PICA Tax is collected by the City's Department of Revenue, as agent of the State Treasurer, and 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. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Local Government Agencies – *Non-Mayoral-Appointed or Nominated Agencies* – PICA."

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 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. The State Treasurer is required to pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account. The 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, are required to 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 total amount of PICA Tax remitted by the State Treasurer to PICA (which is net of the costs of the State Treasurer in collecting the PICA Tax), PICA annual debt service and investment expenses, and net PICA tax revenue remitted to the City for Fiscal Years 2013-2016, the budgeted amounts and the current estimates for Fiscal Year 2017, and the budgeted amounts for Fiscal Year 2018 are set forth below.

**Table 43**
**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)[1]**

| Fiscal Year | PICA Tax | PICA Annual Debt Service and Investment Expenses | Net taxes remitted to the City |
|---|---|---|---|
| 2013 (Actual) | \$376.5[2] | \$62.5[2] | \$314.0[4] |
| 2014 (Actual) | \$384.5[2] | \$65.8[2] | \$318.7[4] |
| 2015 (Actual) | \$408.5[2] | \$62.0[2] | \$346.5[4] |
| 2016 (Actual) | \$444.5[2] | \$61.1[2] | \$383.4[4] |
| 2017 (Adopted Budget) | \$450.0[2] | \$65.3[2] | \$384.7[4] |
| 2017 (Current Estimate) | \$460.0[3] | \$65.3[3] | \$394.7[4] |
| 2018 (Adopted Budget) | \$475.2[3] | \$56.0[3] | \$419.2[4] |

(1) Figures may not sum due to rounding.
(2) Source: The City's Quarterly City Manager's Reports.
(3) Source: The City's Office of Budget and Program Evaluation.
(4) Source: For Fiscal Years 2013-2016, the City's CAFRs for such Fiscal Years. For Fiscal Year 2017, the Fiscal Year 2017 Adopted Budget and the Twenty-Sixth Five-Year Plan. For Fiscal Year 2018, the Fiscal Year 2018 Adopted Budget.

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## OTHER FINANCING RELATED MATTERS

### Swap Information

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

**Table 44**
**Summary of Swap Information**
**for General Fund-Supported Debt**
**as of June 30, 2017**

| **City Entity** | City GO | City Lease PAID | City Lease PAID | City Lease PAID | City Lease PAID | City Lease PAID |
|---|---|---|---|---|---|---|
| **Related Bond Series** | 2009B[(1)] | 2007A (Stadium)[(2)] | 2007B-2,3 (Stadium)[(3),(5)] | 2014A (Stadium)[(3)] | 2007B-2,3 (Stadium)[(3),(6)] | 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 | $87,758,745 | $87,961,255 | $29,246,255 | $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 | 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)]** | ($21,708,517) | ($1,859,739) | ($15,296,505) | ($14,571,079) | ($5,097,981) | ($4,882,679) |
| **Additional Termination Events** | For Dealer: Rating change below BBB- or Baa3<br><br>For City: Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3) | For Dealer: Rating change below BBB- or Baa3<br><br>For PAID: Rating change below BBB- or Baa3 | For Dealer: Rating change below BBB- or Baa3<br><br>For PAID: Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3) | For Dealer: Rating change below BBB- or Baa3<br><br>For PAID: Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3) | For Dealer: Rating change below BBB- or Baa3<br><br>For PAID: Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3) | For Dealer: Rating change below BBB- or Baa3<br><br>For PAID: Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3) |

(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 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, 2017, and are shown from the City's perspective and include accrued interest.

(5) On July 15, 2014, PAID terminated a portion of the swap in the amount of $41,555,000 in conjunction with the refunding of its Series 2007B bonds with the Series 2014B fixed rate bonds. PAID made a termination payment of $4,171,000 to JPMorgan.

(6) On July 15, 2014, PAID terminated a portion of the swap in the amount of $13,840,000 in conjunction with the refunding of its Series 2007B bonds with the Series 2014B fixed rate bonds. PAID made a termination payment of $1,391,800 to Merrill Lynch.

While the City is party to several interest rate swap agreements, 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, the Water Department, and the Division of Aviation, see the Fiscal Year 2016 CAFR. In addition, PICA has entered into swaps, which are detailed in the Fiscal Year 2016 CAFR.

**Swap Policy**

The City has adopted a swap policy for the use of swaps, caps, floors, collars and other derivative financial products (collectively, "swaps") in conjunction with the City's debt management. The swap program managed by the City includes swaps related to the City's general obligation bonds, tax-supported service contract debt issued by related authorities, debt of the Water Department, Division of Aviation, and debt of PGW. Swaps related to debt of the PICA, the School District, and the PPA are managed by those governmental entities, respectively.

The Director of Finance has overall responsibility for entering into swaps. Day-to-day management of swaps is the responsibility of the City Treasurer, and the Executive Director of the Sinking Fund Commission is responsible for making swap payments. The Office of the City Treasurer and the City Solicitor's Office coordinate their activities to ensure that all swaps that are entered into are in compliance with applicable federal, state, and local laws.

The swap policy addresses the circumstances when swaps can be used, the risks that need to be evaluated prior to entering into swaps and on an ongoing basis after swaps have been executed, the guidelines to be employed when swaps are used, and how swap counterparties will be chosen. The swap policy is used in conjunction with the City's Debt Management Policy, reviewed annually, and updated as needed.

Under the swap policy, permitted uses of swaps include: (i) managing the City's exposure to floating interest rates through interest rate swaps, caps, floors and collars; (ii) locking in fixed rates in current markets for use at a later date through the use of forward starting swaps and rate locks; (iii) reducing the cost of fixed or floating rate debt through swaps and related products to create "synthetic" fixed or floating rate debt; and (iv) managing the City's credit exposure to financial institutions and other entities through the use of offsetting swaps.

Since swaps can create exposure to the creditworthiness of financial institutions that serve as the City's counterparties on swap transactions, the City has established standards for swap counterparties. As a general rule, the City enters into transactions with counterparties whose obligations are rated in the double-A rated category or better from two nationally recognized rating agencies. If counterparty's credit rating is downgraded below the double-A rating category, the swap policy requires that the City's exposure be collateralized. If a counterparty's credit is downgraded below the A category, even with collateralization, the swap policy requires a provision in the swap permitting the City to exercise a right to terminate the transaction prior to its scheduled termination date.

## Letter of Credit Agreements

The City has entered into various letter of credit agreements related to its General Fund-Supported Debt 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 45**
**Summary of Letter of Credit Agreements for General Fund-Supported Debt as of June 30, 2017**

| Variable Rate Bond Series | Amount Outstanding | Bond Maturity Date | Provider | Expiration Date | Rating Thresholds [1] |
|---|---|---|---|---|---|
| General Obligation Multi-Modal Refunding Bonds, Series 2009B | $100,000,000 | August 1, 2031 | Barclays Bank PLC | May 24, 2019 | The long-term rating assigned by any one of the rating agencies to any unenhanced long-term parity debt of the City is (i) withdrawn or suspended for credit-related reasons or (ii) reduced below investment grade. |
| PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B-2 | $72,400,000 | October 1, 2030 | TD Bank | May 29, 2019 | The long-term ratings assigned by at least two of the rating agencies to any unenhanced general obligation bonds of the City is (i) withdrawn or suspended for credit-related reasons, or (ii) reduced below investment grade. |
| PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B-3 | $44,605,000 | October 1, 2030 | PNC Bank | May 22, 2020 | The long-term ratings assigned by at least two of the rating agencies to any unenhanced general obligation bonds of the City is (i) withdrawn or suspended for credit-related reasons, or (ii) reduced below investment grade. |

[1] The occurrence of a Rating Threshold event would result in an event of default under the reimbursement agreement with the related bank.

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## Recent and Upcoming Financings

*Recent Financings*. The following is a list of financings that the City has entered into since June 30, 2016:

- In August 2017, the City issued $331,615,000 in General Obligation Bonds.
- In April 2017, PMA issued $83,220,000 in City Agreement Revenue Refunding Bonds for the benefit of the City.
- In April 2017, the City, together with the Water Department, issued $279,865,000 in Water and Wastewater Revenue Bonds.
- In February 2017, the City issued $262,865,000 in General Obligation Refunding Bonds.
- In November 2016, the City, together with the Water Department, issued $192,680,000 in Water and Wastewater Bonds to refund certain outstanding maturities.
- In October 2016, the City issued $175,000,000 of its tax and revenue anticipation notes to finance certain cash flow needs of the City.
- In August 2016, the City, together with PGW, issued $312,425,000 of its Gas Works Revenue Refunding Bonds to refund certain outstanding series of such bonds.

*Upcoming Financings*. The City currently expects to enter into the following financings within the next six months:

- In August 2017, the City, together with the Water Department, expects to issue $174,110,000 in Water and Wastewater Revenue Refunding Bonds.
- In August 2017, the City, together with PGW, expects to issue approximately $280 million in Gas Works Revenue Bonds.
- In the fall of 2017, the City, together with the Division of Aviation, expects to issue approximately $690 million in Airport Revenue and Refunding Bonds.

## Other Upcoming Transactions

City Council has enacted an ordinance authorizing the City to enter into a sublease not to exceed nineteen years for property located at 400 N. Broad Street and 1501 Callowhill Street to be renovated and used as the City's police headquarters and related facilities. The City's sublease payments will be based on a market interest rate and the repayment of the master landlord's total project cost (currently estimated at $260 million) over the term of the sublease; however, the final structure of the sublease payments has not yet been determined. The City has a purchase option for the property in the ninth year of the sublease. The sublease is anticipated to be executed and effective in the first quarter of Fiscal Year 2018.

## CITY CAPITAL PROGRAM

As part of the annual budget process, the Mayor submits for approval a six-year capital program to City Council, together with the proposed operating budget. For more information on the City's budget process, see "DISCUSSION OF FINANCIAL OPERATIONS – Budget Procedure."

### Certain Historical Capital Expenditures

Table 46 shows the City's historical expenditures for Fiscal Years 2012-2016 for certain capital purposes, including expenditures for projects related to transit, streets and sanitation, municipal buildings, recreation, parks, museums, and stadia, and economic and community development. The source of funds used for such expenditures are primarily general obligation bond proceeds, but also include federal, state, private, and other government funds and operating revenue. Figures in the table below may not sum due to rounding.

**Table 46**
**Historical Expenditures for Certain Capital Purposes**
**Fiscal Years 2012-2016**

| Purpose Category | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Transit | $ 1,224,771 | $ 3,895,208 | $ 2,168,224 | $ 1,283,307 | $ 3,157,479 |
| Streets & Sanitation | 61,753,417 | 63,925,744 | 46,806,225 | 63,612,248 | 18,004,055 |
| Municipal Buildings | 41,583,740 | 37,979,932 | 35,579,152 | 53,419,449 | 126,772,899 |
| Recreation, Parks, Museums & Stadia | 27,002,563 | 26,609,320 | 17,787,234 | 29,875,633 | 24,737,224 |
| Economic & Community Development | 4,654,093 | 4,654,403 | 11,839,066 | 12,714,468 | 9,695,604 |
| **TOTAL** | **$136,218,584** | **$137,064,607** | **$114,179,901** | **$160,905,105** | **$182,367,262** |

Table 47 shows the City's historical expenditures for Fiscal Years 2012-2016 for certain capital purposes from general obligation bond proceeds only and the percentage of the total costs covered by such proceeds in such Fiscal Years. Figures in the table below may not sum due to rounding.

**Table 47**
**Historical Expenditures for Certain Capital Purposes**
**(General Obligation Bond Proceeds Only)**
**Fiscal Years 2012-2016**

| Purpose Category | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Transit | $ 1,224,771 | $ 3,895,208 | $ 2,168,224 | $ 1,274,467 | $ 3,157,479 |
| Streets & Sanitation | 27,421,106 | 20,921,343 | 18,642,621 | 24,887,488 | 5,676,057 |
| Municipal Buildings | 18,611,628 | 19,108,015 | 27,936,597 | 47,163,418 | 69,192,711 |
| Recreation, Parks, Museums & Stadia | 20,992,545 | 23,403,765 | 15,838,047 | 25,494,778 | 17,524,673 |
| Economic & Community Development | 3,739,978 | 4,459,786 | 11,816,222 | 12,714,468 | 9,511,479 |
| **TOTAL** | **$71,990,028** | **$71,788,117** | **$76,401,711** | **$111,534,619** | **$105,062,399** |
| | | | | | |
| **Percentage of Total Costs** | **53%** | **52%** | **67%** | **69%** | **58%** |

## Adopted Capital Program

The Adopted Capital Program is included as part of the Twenty-Sixth Five-Year Plan and contemplates a total budget of $9.57 billion. In the Adopted Capital Program, $3.33 billion is expected 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 in the Adopted Capital Program.

**Table 48**
**Adopted Capital Program (Fiscal Years 2018-2023)**
**(Amounts in Thousands of USD)**

| Funding Source | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2018-2023 |
|---|---|---|---|---|---|---|---|
| **City Funds--Tax Supported** | | | | | | | |
| Carried-Forward Loans | $426,560 | - | - | - | - | - | $426,560 |
| Operating Revenue | 22,216 | $2,250 | $2,250 | $2,250 | $2,000 | $2,000 | 32,966 |
| New Loans | 165,206 | 181,942 | 160,450 | 156,978 | 159,945 | 157,035 | 981,556 |
| Prefinanced Loans | 4,653 | - | - | - | - | - | 4,653 |
| PICA Prefinanced Loans | 4,947 | - | - | - | - | - | 4,947 |
| Tax Supported Subtotal | $623,582 | $184,192 | $162,700 | $159,228 | $161,945 | $159,035 | $1,450,682 |
| **City Funds--Self Sustaining** | | | | | | | |
| Self-Sustaining Carried Forward Loans | $419,075 | - | - | - | - | - | $419,075 |
| Self-Sustaining Operating Revenue | 139,345 | $59,522 | $56,045 | $75,048 | $82,091 | $82,162 | 494,213 |
| Self-Sustaining New Loans | 638,804 | 636,897 | 645,134 | 629,803 | 643,934 | 650,701 | 3,845,273 |
| Self-Sustaining Subtotal | $1,197,224 | $696,419 | $701,179 | $704,851 | $726,025 | $732,863 | $4,758,561 |
| **Other City Funds** | | | | | | | |
| Revolving Funds | $9,000 | $3,000 | $3,000 | $3,000 | $3,000 | $3,000 | $24,000 |
| **Other Than City Funds** | | | | | | | |
| Carried-Forward Other Government | $4,884 | - | - | - | - | - | $4,884 |
| Other Government Off Budget | 1,338 | $1,639 | $1,435 | $1,744 | $1,717 | $1,580 | 9,453 |
| Other Governments/Agencies | 2,300 | - | - | - | - | - | 2,300 |
| Carried-Forward State | 165,951 | - | - | - | - | - | 165,951 |
| State Off Budget | 209,147 | 200,791 | 195,945 | 205,504 | 204,846 | 202,860 | 1,219,093 |
| State | 34,350 | 30,259 | 30,266 | 29,763 | 29,787 | 22,849 | 177,274 |
| Carried-Forward Private | 115,108 | - | - | - | - | - | 115,108 |
| Private | 87,270 | 77,351 | 73,140 | 73,678 | 78,591 | 71,358 | 461,388 |
| Carried-Forward Federal | 262,013 | - | - | - | - | - | 262,013 |
| Federal Off-Budget | 26,819 | 39,636 | 69,612 | 9,324 | 3,497 | - | 148,888 |
| Federal | 139,934 | 123,324 | 141,938 | 121,961 | 122,460 | 116,336 | 765,953 |
| Other Than City Funds Subtotal | $1,049,114 | $473,000 | $512,336 | $441,974 | $440,898 | $414,983 | $3,332,305 |
| **TOTAL** | **$2,878,920** | **$1,356,611** | **$1,379,215** | **$1,309,053** | **$1,331,868** | **$1,309,881** | **$9,565,548** |

## 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 PGW, which are paid out of their respective funds or revenues and only secondarily out of 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 the recent decision of the Supreme Court of Pennsylvania in *Zauflik v. Pennsbury School District*, 104 A.3d 1096 (2014). 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 that does not arise under state tort law, such as claims made against the City under federal civil rights laws. In two instances over the last several years, legislation has been introduced in the General Assembly that would have increased such $500,000 limitation. In both such instances, the legislation was not reported out of committee or scheduled for a vote.

### General Fund

The following table presents the City's aggregate losses from settlements and judgments paid out of the General Fund for Fiscal Years 2013-2017 and the budgeted amount for Fiscal Year 2018.

**Table 49**
**Aggregate Losses – General and Special Litigation Claims (General Fund)**
**Fiscal Years 2013-2017 (Actual) and 2018 (Budget)**
**(Amounts in Millions of USD)**

| | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Actual 2017 | Budget 2018 |
|---|---|---|---|---|---|---|
| Aggregate Losses | $30.3 | $41.0 | $37.3 | $41.2 | $38.3 | $44.9 |

Sources: The City, Office of Budget and Program Evaluation – Budget Bureau, Indemnity Account, Status Reports.

The current estimate of settlements and judgments from the General Fund for Fiscal Year 2018 is $44.9 million. Such estimate is based on the Law Department's internal calculations using (i) the "Possible Costs" listed in its Quarterly Litigation Reports, (ii) the 3-year average cost for closed cases, and (iii) current year to date spending reports. Based on the Twenty-Sixth Five-Year Plan, the current estimate of settlements and judgments from the General Fund for Fiscal Years 2019-2022 is $44.9 million for each such Fiscal Year.

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.

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 General Fund. These proceedings involve: (i) 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; (ii) contract disputes and other commercial litigation; (iii) union arbitrations and other employment-related litigation; (iv) potential and certified class action suits; and (v) civil rights litigation. The ultimate outcome and fiscal impact, if any, on the General Fund of the claims and proceedings described in this paragraph are not currently predictable.

In addition, see "REVENUES OF THE CITY – Other Taxes," for a discussion of litigation relating to the Philadelphia Beverage Tax.

**Water Fund**

Various claims 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 following table presents the Water Department's aggregate losses from settlements and judgments paid out of the Water Fund for Fiscal Years 2013-2017 and the budgeted amount for Fiscal Year 2018. The current estimate for Fiscal Year 2018 is $6.5 million. The Water Fund is the first source of payment for any of the claims against the Water Department.

**Table 50**
**Aggregate Losses – General and Special Litigation Claims (Water Fund)**
**Fiscal Years 2013-2017 (Actual) and 2018 (Budget)**
**(Amounts in Millions of USD)**

| | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Actual 2017 | Budget 2018 |
|---|---|---|---|---|---|---|
| Aggregate Losses | $5.1 | $6.1 | $3.8 | $5.4 | $7.0 | $6.5 |

Sources: The City, Office of Budget and Program Evaluation – Budget Bureau, Indemnity Account, Status Reports.

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**Aviation Fund**

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 following table presents the Division of Aviation's aggregate losses from settlements and judgments paid out of the Aviation Fund for Fiscal Years 2013-2017 and the budgeted amount for Fiscal Year 2018. The current estimate for Fiscal Year 2018 is $2.5 million. The Aviation Fund is the first source of payment for any of the claims against the Division of Aviation.

**Table 51**
**Aggregate Losses – General and Special Litigation Claims (Aviation Fund)**
**Fiscal Years 2013-2017 (Actual) and 2018 (Budget)**

| | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Actual 2017 | Budget 2018 |
|---|---|---|---|---|---|---|
| Aggregate Losses | $1.4 million | $665,527 | $750,793 | $1.3 million | $1.6 million | $2.5 million |

Sources: The City, Office of Budget and Program Evaluation – Budget Bureau, Indemnity Account, Status Reports.

**PGW**

Various claims have been asserted against PGW and in some cases lawsuits have been instituted. Many of these PGW claims have been reduced to judgment or otherwise settled in a manner requiring payment by PGW. The following table presents PGW's settlements and judgments paid out of PGW revenues, with accompanying reserve information, in PGW Fiscal Years 2012 through 2016. PGW revenues are the first source of payment for any of the claims against PGW. PGW currently estimates approximately $3.8 million and $5.4 million in settlements and judgments for PGW Fiscal Years 2017 and 2018, respectively.

**Table 52**
**Claims and Settlement Activity (PGW)**
**PGW Fiscal Years 2012-2016**
**(Amounts in Thousands of USD)**

| Fiscal Year (ending August 31) | Beginning of Year Reserve | Current Year Claims and Adjustments | Claims Settled | End of Year Reserve | Current Liability Amount |
|---|---|---|---|---|---|
| 2012 | $10,697 | $3,725 | ($3,320) | $11,102 | $7,664 |
| 2013 | $11,102 | $2,616 | ($3,307) | $10,411 | $4,925 |
| 2014 | $10,411 | $2,498 | ($2,965) | $9,944 | $4,728 |
| 2015 | $9,944 | $3,610 | ($2,042) | $11,512 | $5,011 |
| 2016 | $11,512 | $2,022 | ($3,041) | $10,493 | $5,307 |

Source: PGW's audited financial statements.

# APPENDIX B

# CITY SOCIOECONOMIC INFORMATION

## TABLE OF CONTENTS

## INTRODUCTION

The City of Philadelphia (the "City" or "Philadelphia") is the sixth largest city in the nation by population, and is at the center of the United States' seventh largest metropolitan statistical area, according to 2016 estimates. The Philadelphia MSA (further described below) includes a substantial retail sales market, as well as a diverse network of business suppliers and complementary industries. Some of the City's top priorities include attracting and retaining knowledge workers, increasing educational attainment and employment skills among Philadelphians, attracting real estate development, and promoting Philadelphia as a desirable location for business.

According to the 2010 U.S. Census, the City increased its population by 0.7% to 1.53 million residents in the ten years from 2000 to 2010, ending six decades of population decline. Although the increase was modest, it was an indicator of more recent growth and development in Philadelphia. From 2010 to 2016, the City increased its population by 2.6% to 1.57 million residents, which exceeded the rate of population growth projected by the Philadelphia City Planning Commission in its 2011 comprehensive plan.

Although facing challenges such as underfunded pension liabilities, low estimated General Fund balances in Fiscal Years 2017-2022, high rates of poverty, and the School District of Philadelphia's (the "School District") ongoing fiscal challenges, the City benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries.

### Geography

The City has an area of approximately 134 square miles, and is located along the southeastern border of the Commonwealth of Pennsylvania (the "Commonwealth"), 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 both the largest city and the only city of the first class in the Commonwealth, and is coterminous with the County of Philadelphia.

*Philadelphia Metropolitan Statistical Area (the "MSA")*, highlighted in blue in Figure 1, is the eleven-county area named the Philadelphia-Camden-Wilmington metropolitan statistical area, representing an area of approximately 5,118 square miles with approximately 6,070,500 residents according to 2016 estimates by the U.S. Census Bureau.[1]

*Philadelphia Primary Metropolitan Statistical Area (the "PMSA")*, highlighted with bold black outlines, in Figure 1, is a five-county area within the MSA that lies in the Commonwealth and is sometimes called the Philadelphia Metropolitan Division. The counties of Bucks, Chester, Delaware, and Montgomery are referred to as the Suburban PMSA herein.

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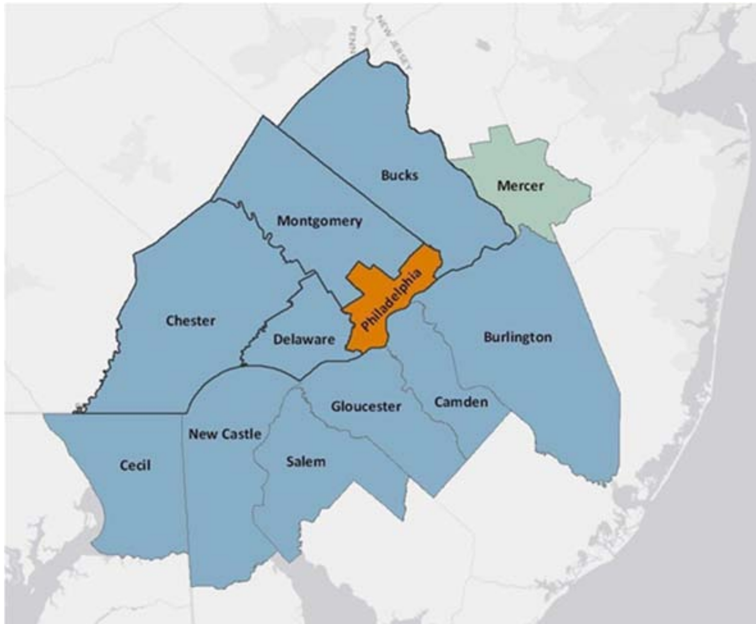
[1] Due to its close proximity and impact on the region's economy, Mercer County, New Jersey, highlighted in green in Figure 1, is included in the MSA by many regional agencies, although it is not included in the area defined by the U.S. Office of Management and Budget.

**Figure 1**
**Map of Philadelphia Region including the MSA, PMSA, and Mercer County, NJ**




Source: 2009 TIGER County Shapefiles

## Strategic Location

Philadelphia is at the center of the second largest MSA on the East Coast, and is served by a robust transportation infrastructure, including: the Philadelphia International Airport, Amtrak's Northeast Corridor rail service, major interstate highway access, regional train service provided by Southeastern Pennsylvania Transportation Authority ("SEPTA") and New Jersey's PATCO (as defined herein), and the Port of Philadelphia. Due to the transportation infrastructure centered in the City, Philadelphia is accessible to regional and international markets, and is within a day's drive of 50% of the nation's population. Philadelphia's central location along the East Coast, an hour from New York City and less than two hours from Washington, D.C. by high-speed rail, also allows for convenient access to these significant economic centers.

Essential to Philadelphia's strategic location is the region's access to public transit. The U.S. Census reports that 26.5% of Philadelphians used public transit to commute to work in 2014. SEPTA regional rail service had record ridership in Fiscal Year 2015, and SEPTA public transit modes collectively had an average annual aggregate ridership increase of 1.2% from fiscal years 2006-2015.

## Population and Demographics

Philadelphia is the nation's sixth most populous city, with 1.57 million residents, based on 2016 estimates. The 2000 and 2010 U.S. Census reflect the City's first population gain in 60 years. The City's population reached its nadir in 2006 with 1.45 million residents. Philadelphia's population has increased by nearly 119,428 residents from 2006 – 2016, or by 8.25%.

From 2006 to 2012, the share of the population represented by citizens age 20 to 34 grew from 20% to 26%, becoming the largest share of Philadelphia's population. Of the 30 largest cities in the country, Philadelphia had the largest percentage point increase of millennials as a share of overall population from 2006 to 2012. This demographic tends to be better educated than the City's and the nation's adult population as a whole. In 2015, 41.3% of 25- to 34-year-olds in Philadelphia held a bachelor's degree or higher, while only 34.1% of 25 to 34-year-olds in the United States were college graduates. The City's many universities and diverse employment opportunities are likely draws for residents in the 20 to 34 age group. In addition to an increase in the millennial population, the City's immigrant population also grew significantly, with the City's Asian population increasing 161.4% and the Hispanic or Latino population growing by 164.6% from 2000 to 2014, according to the US Census Bureau.

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

| | 1990 | 2000 | 2010 | 2016 | Percent Change 2000-2010 | Percent Change 2010-2016 |
|---|---|---|---|---|---|---|
| Philadelphia | 1,585,577 | 1,517,550 | 1,528,427 | 1,567,872 | 0.7% | 2.6% |
| Philadelphia-Camden-Wilmington MSA | 5,435,468 | 5,687,147 | 5,972,049 | 6,070,500 | 5.0% | 1.6% |
| Pennsylvania | 11,881,643 | 12,281,054 | 12,712,343 | 12,784,227 | 3.5% | 0.6% |
| United States | 248,709,873 | 281,421,906 | 309,348,193 | 321,127,513 | 9.9% | 4.5% |

Source: U.S. Census Bureau, Population Estimates 2016, Census 2010, Census 2000, Census 1990.

Nearly 27% of Philadelphia's population is school-aged (aged 5-17), and in 2015, Philadelphia exceeded many selected peer cities in its share of students who are enrolled in an undergraduate, graduate or professional education program. Selected peer cities (as shown in Table 2) reflect characteristics consistent with Philadelphia, such as geography, socio-economic statistics, industrial legacies, or port facilities. Among these cities, while Boston had the highest percentage of its population enrolled in higher education, Philadelphia had 37,315 more students enrolled in higher education than Boston. Philadelphia had the sixth highest percentage of its population enrolled in higher education and the fifth largest university student population.

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**Table 2**
**2015 Total Number of Students, as a Percent of Total Population of Selected Cities, Ranked by Total Number of Students Enrolled in Higher Education**

| | 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 |
|---|---|---|---|---|
| Los Angeles, CA | 1,034,553 | 357,488 | 34.55% | 9.04% |
| Chicago, IL | 680,596 | 221,655 | 32.57% | 8.67% |
| Houston, TX | 609,644 | 159,906 | 26.23% | 7.30% |
| San Diego | 376,271 | 155,714 | 41.38% | 11.27% |
| Philadelphia, PA | 402,440 | 140,412 | 34.89% | 9.65% |
| San Antonio, TX | 403,558 | 110,739 | 27.44% | 8.33% |
| Boston, MA | 188,623 | 103,097 | 54.66% | 17.09% |
| Phoenix, AZ | 410,290 | 91,924 | 22.40% | 6.72% |
| Washington, DC | 166,940 | 76,339 | 45.73% | 11.78% |
| Baltimore, MD | 156,644 | 53,524 | 34.17% | 9.89% |
| Milwaukee, WI | 176,509 | 49,857 | 28.25% | 10.03% |
| Detroit, MI | 163,368 | 45,632 | 27.93% | 7.95% |
| Memphis, TN | 181,285 | 48,901 | 26.97% | 7.56% |
| Cleveland, OH | 99,028 | 28,664 | 28.95% | 7.56% |
| United States | 81,618,288 | 22,656,979 | 27.76% | 7.52% |

Source: 2015 American Community Survey, 1-Year Estimates.

## 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 a major regional business and personal services center with strengths in insurance, law, finance, health, education, utilities, and the arts. As of 2013, approximately 182,600 residents of the Philadelphia region's four suburban counties (Bucks, Chester, Delaware, and Montgomery), and an additional 129,000 residents of counties outside the five-county region, worked within the City. 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 MSA plus Mercer County, New Jersey.

As shown in Table 11, the cost of living in the City is relatively moderate and affordable compared to other major metropolitan areas along the East Coast. Philadelphia's cost of living is 20% less than the Washington D.C. metropolitan area and 61% less than Manhattan. The City, as one of the country's education centers, offers the business community a large, diverse, and industrious labor pool.

### Key Industries

Table 3 provides location quotients for Philadelphia's most concentrated industry sectors. Location quotients quantify how concentrated a particular industry is in a region as compared to a base reference area, usually the nation. A location quotient greater than 1.00 indicates an industry with a greater share of the local area employment than is the case in the reference area.

As shown in Table 3, compared to the nation, Philadelphia County has higher concentrations in eight sectors: 1. educational services; 2. health care and social assistance; 3. management of companies and enterprises; 4. arts, entertainment, and recreation; 5. finance and insurance; 6. professional and technical services; 7. other services, and 8. transportation and warehousing.[2] Of these eight sectors, the City has a higher concentration of employment than the Commonwealth in six sectors: educational services; health care and social assistance; arts, entertainment and recreation; finance and insurance; professional and technical services; and other services.

**Table 3**
**Ratio of Philadelphia County and Pennsylvania Industry Concentrations Compared to the United States**

| Industry | Philadelphia County to the US | Pennsylvania to the US |
|---|---|---|
| Educational Services | 4.32 | 1.51 |
| Health Care and Social Assistance | 1.73 | 1.22 |
| Management of Companies and Enterprises | 1.27 | 1.42 |
| Arts, Entertainment, and Recreation | 1.20 | 1.01 |
| Finance and Insurance | 1.16 | 1.05 |
| Professional and Technical Services | 1.13 | 0.92 |
| Other Services | 1.12 | 1.06 |
| Transportation and Warehousing | 1.10 | 1.18 |

Source: Bureau of Labor Statistics: 2015 Location Quotient, Quarterly Census of Employment and Wages Data.
Industry Location Quotients are calculated by comparing the industry's share of regional employment with its share of national employment.

The concentration of educational services not only provides stable support to the local economy, but also generates a steady and educated workforce, fueling the City's professional services and healthcare industries. In a 2014 Campus Philly report "Choosing Philadelphia," 51% of non-native students, and 76% of native graduates from the region, chose to live in Philadelphia directly after graduation.

The City is also capitalizing on the region's assets to become a leader in research generated by life sciences and educational institutions. Several sites now foster life science incubator facilities, including The Navy Yard, University City Science Center, University of Pennsylvania, Children's Hospital of Philadelphia, Jefferson Hospital, Drexel University, and The Wistar Institute. The University of Pennsylvania's Penn Center for Innovation and Temple University's Office of Technology Development and Commercialization are two of several organizations driving tech transfer and commercialization of innovations developed at Philadelphia's major research institutions. A new development, uCity Square, was announced in late 2016. When the project is complete, it will expand the one million square feet in facilities offered by the University City Science Center to 6 million square feet, with a projected investment of over $1 billion. Such project is expected to be completed in 2027.

[2] The Bureau of Labor Statistics ("BLS") defines the "Other Services" (except Public Administration) sector as establishments engaged in providing services not specifically provided for elsewhere in the BLS classification system, such as equipment and machinery repairing, promoting or administering religious activities, grantmaking, advocacy, providing dry cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.

## Employment

Table 4 shows non-farm payroll employment in the City over the last decade by industry sectors. In the past 10 years, growth has occurred in Mining, Logging, and Construction; Trade, Transportation, and Utilities; Professional and Business Services; Education and Health Services; and Leisure and Hospitality. These sectors provide stability to the City's overall economy.

**Table 4**
**Philadelphia Non-Farm Payroll Employment[1] (Amounts in Thousands)**

| Sector | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | % Change 2007-16 | Average Annual % Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Leisure and Hospitality | 58.0 | 57.9 | 56.9 | 58.4 | 60.6 | 63.2 | 64.8 | 66.9 | 68.5 | 70.8 | 22.1% | 2.3% |
| Education and Health Services | 192.4 | 196.7 | 199.5 | 202.3 | 206.4 | 208.1 | 209.3 | 212.7 | 216.6 | 223.9 | 16.4% | 1.5% |
| Professional and Business Services | 85.8 | 85.3 | 80.1 | 81.6 | 83.0 | 84.1 | 86.4 | 88.3 | 90.9 | 95.4 | 11.2% | 0.8% |
| Trade, Transportation, and Utilities | 87.8 | 87.6 | 85.9 | 86.6 | 87.4 | 88.9 | 89.5 | 90.9 | 92.2 | 93.0 | 5.9% | 0.6% |
| Other Services | 28.0 | 27.8 | 26.6 | 26.5 | 26.4 | 26.8 | 26.9 | 26.8 | 27.1 | 27.8 | -0.7% | -0.4% |
| Mining, Logging, and Construction | 11.9 | 12.1 | 10.1 | 10.0 | 10.0 | 10.2 | 10.4 | 11.0 | 11.5 | 12.0 | 0.8% | -0.2% |
| Information | 12.6 | 12.5 | 12.6 | 12.2 | 12.0 | 12.0 | 11.5 | 11.5 | 11.8 | 11.7 | -7.1% | -0.8% |
| Financial Activities | 47.1 | 46.5 | 44.9 | 42.6 | 41.6 | 41.0 | 41.1 | 41.7 | 42.3 | 42.7 | -9.3% | -1.3% |
| Manufacturing | 28.5 | 27.8 | 25.7 | 24.7 | 23.7 | 22.9 | 21.8 | 21.5 | 21 | 20.4 | -28.4% | -3.7% |
| Private Sector Total | 552.1 | 554.2 | 542.3 | 544.9 | 551.1 | 557.2 | 561.7 | 571.3 | 581.9 | 597.7 | 8.3% | 0.7% |
| Government | 110.6 | 109.2 | 110.4 | 112.1 | 109.0 | 105.3 | 103.5 | 102.2 | 101.6 | 101.9 | -7.9% | -1.0% |
| Total | 662.7 | 663.4 | 652.7 | 657.0 | 660.1 | 662.5 | 665.2 | 673.5 | 683.5 | 699.6 | 5.6% | 0.4% |

Source: Bureau of Labor Statistics, 2016.
[1] Includes persons employed within the City, without regard to residency.

**Table 5**
**Philadelphia Change in Share of Employment Sectors[1], Ranked by Percent Change of Share**

| Sector | Share of Total Employment 2007 | Share of Total Employment 2016 | Percent Change of Share 2007-2016 |
|---|---|---|---|
| Leisure and Hospitality | 8.8% | 10.1% | 15.6% |
| Education and Health Services | 29.0% | 32.0% | 10.2% |
| Professional and Business Services | 12.9% | 13.6% | 5.3% |
| Trade, Transportation, and Utilities | 13.2% | 13.3% | 0.3% |
| Other Services | 4.2% | 4.0% | -6.0% |
| Mining, Logging, and Construction | 1.8% | 1.7% | -4.5% |
| Information | 1.9% | 1.7% | -12.0% |
| Financial Activities | 7.1% | 6.1% | -14.1% |
| Manufacturing | 4.3% | 2.9% | -32.2% |
| Private Sector Total | 83.3% | 85.4% | 2.5% |
| Government | 16.7% | 14.6% | -12.7% |

Source: Bureau of Labor Statistics, 2016.
[1] Includes persons employed within the City, without regard to residency.

Bureau of Labor Statistics data show that in 2016, the Education and Health Services, Professional and Business Services, Financial Activities, and Leisure and Hospitality sectors collectively represented 61.9% of total employment in the City for the year. From 2010 to 2016, Philadelphia has created 52,800 private sector jobs since losing nearly 12,000 private jobs at the peak of the recession in 2009.

**Unemployment**

Although Philadelphia has recently narrowed the gap between its unemployment levels and the national unemployment levels, the effects of the recession on unemployment endured longer in Philadelphia than in many other parts of the country.

As shown in Table 6, employment gains in the latter part of 2013 through 2015 have resulted in a decline in Philadelphia's unemployment rate from a high of 10.9% in 2012 to 6.8% in 2016.

Table 6 below shows unemployment information for Philadelphia, the MSA, the Commonwealth and the United States.

**Table 6**
**Unemployment Rate in Selected Geographical Areas**
**(Annual Average 2007-2016)**

| Geographical Area | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Change in rate from 2007-2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | 4.6 | 5.8 | 9.3 | 9.6 | 8.9 | 8.1 | 7.4 | 6.2 | 5.3 | 4.9 | 0.3 |
| Pennsylvania | 4.3 | 5.3 | 7.9 | 8.5 | 7.9 | 7.9 | 7.4 | 5.9 | 5.1 | 5.4 | 1.1 |
| Philadelphia-Camden-Wilmington MSA | 4.3 | 5.3 | 8.3 | 8.8 | 8.5 | 8.4 | 7.7 | 6.2 | 5.3 | 5.1 | 0.8 |
| Philadelphia | 6.1 | 7.1 | 9.7 | 10.6 | 10.7 | 10.9 | 10.3 | 8.1 | 6.9 | 6.8 | 0.7 |

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

**Principal Private Sector Employers in the City**

Table 7 lists Philadelphia's 15 largest private sector employers by number of employees. Five 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, and broadcasting/cable.

Fortune 500 companies headquartered or maintaining a major presence in Philadelphia include: the Comcast Corporation, Cigna Corporation, Aramark Corporation, Crown Holdings Inc., and Lincoln National. As of 2015, four Fortune 1000 companies are also headquartered within the City: FMC Corporation, Urban Outfitters Inc., Chemtura and Pep Boys.

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**Table 7**
**Principal Private Sector Employers**
**Ranked by Number of Employees in Philadelphia (as of October, 2016)**

| Employer | Sector | Employees within Philadelphia |
|---|---|---|
| University of Pennsylvania | Education | 21,193 |
| University of Pennsylvania Health System | Health | 15,956 |
| Children's Hospital of Philadelphia | Health | 11,895 |
| Temple University Hospital, Inc. | Health | 9,030 |
| Temple University | Education | 8,674 |
| Comcast Corporation[1] | Media/IT | 8,000 |
| Thomas Jefferson University Hospitals | Health | 7,825 |
| Drexel University | Education | 6,291 |
| Aramark Corporation | Food Service | 6,207 |
| Albert Einstein Medical | Health | 5,323 |
| American Airlines | Transportation | 5,198 |
| Thomas Jefferson University | Education | 4,547 |
| Independence Blue Cross | Insurance | 3,554 |
| PNC Bank N.A. | Finance | 1,883 |
| Ace Insurance Company | Insurance | 1,512 |
| GlaxoSmithKline LLC | Bio-tech | 1,376 |
| | **Total** | **118,464** |

Source: City of Philadelphia Department of Commerce
[1] Employment data for Comcast Corporation are an estimate provided by Comcast Corporation, May 2015. This estimate includes approximately 2,000 contract workers.

## 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 located in the City. 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 and medical schools: Children's Hospital of Philadelphia, the Hospital of the University of Pennsylvania, The Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. Philadelphia is home to two of the nation's 41 National Cancer Institute ("NCI")-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).

*Penn Medicine University of Pennsylvania Health System*

Penn Medicine includes Pennsylvania Hospital, the nation's first hospital, founded in 1751 and the nation's first medical school, the University of Pennsylvania School of Medicine, opened in 1765. In addition, the Hospital of the University of Pennsylvania was established in 1874 as the nation's first teaching hospital. Penn Medicine's hospitals have been named among the top ten hospitals in the country with the combined University of Pennsylvania and Penn Presbyterian Medical Center ranked #1 in the region by *U.S. News and World Report*. Penn Medicine, which has invested more than $200 million in major capital investments between 2014 and 2015, began construction in 2016 on a new 1.5 million square foot Patient Pavilion, a new clinical facility that is projected to be occupied by spring of 2021.

*Children's Hospital of Philadelphia Expansion*

Top-ranked Children's Hospital of Philadelphia ("CHOP") is the oldest children's hospital in the nation and one of the largest in the world. Since 2002, CHOP has invested over $2.6 billion in its expansion in Philadelphia. CHOP recently approved an additional $2.7 billion expansion in Philadelphia through 2017. In fall of 2015, phase one of the $500 million, 700,000 square foot Buerger Center for Advanced Pediatric Care was completed; the last few levels within phase two will open in 2017.

*Temple University Hospital, Inc.*

Temple University Hospital (TUH) is one of the region's most respected academic medical centers. The 722-bed Philadelphia hospital is also the chief clinical training site for the Lewis Katz School of Medicine at Temple University. TUH was ranked among the "Best Regional Hospitals" in six different specialties in *U.S. News & World Report* 2014-2015 regional rankings.

*Thomas Jefferson University and Jefferson Health*

Thomas Jefferson University Hospital has been at the top of the list of hospitals in Pennsylvania (3rd) and the Philadelphia metro area (2nd) in *U.S. News & World Report*'s annual listing of the best hospitals and specialties. Jefferson Health has recently participated in two significant mergers, integrating the Aria Health system and Abington Hospital into its system. Thomas Jefferson University is currently in the process of acquiring Philadelphia University.

*Einstein Healthcare Network*

Einstein Healthcare Network is a private, not-for-profit organization with several major facilities and many outpatient centers that has been in existence for nearly 150 years. The Einstein Health and Medical Center in Philadelphia has been listed as a top hospital in *U.S. News & World Report*.

Table 8 lists the top ten recipients of funding from the National Institutes of Health ("NIH") in fiscal year 2016, in order of total funding received. The University of Pennsylvania ("Penn") was the fourth largest recipient of NIH funding in 2016 and consistently places near the top of this list.

**Table 8**
**Largest Recipients of National Institutes of Health Funding, Fiscal Year 2016**

| | Organization | City | State | Awards | Funding |
|---|---|---|---|---|---|
| 1 | Johns Hopkins University | Baltimore | MD | 1297 | $650,878,713 |
| 2 | University of California, San Francisco | San Francisco | CA | 1208 | $577,576,919 |
| 3 | University of Michigan | Ann Arbor | MI | 1106 | $486,690,808 |
| 4 | University of Pennsylvania | Philadelphia | PA | 1107 | $478,866,008 |
| 5 | University of Pittsburgh, Pittsburgh | Pittsburgh | PA | 1053 | $475,851,374 |
| 6 | University of Washington | Seattle | WA | 885 | $458,217,212 |
| 7 | Stanford University | Stanford | CA | 944 | $427,012,784 |
| 8 | Duke University | Durham | NC | 778 | $416,881,431 |
| 9 | Univ. of North Carolina Chapel Hill | Chapel Hill | NC | 871 | $412,385,487 |
| 10 | Yale University | New Haven | CT | 924 | $407,245,439 |

Source: National Institutes of Health, 2016

**Educational Institutions**

The MSA plus Mercer County, New Jersey, has the second largest concentration of undergraduate and graduate students on the East Coast, with 101 degree granting institutions of higher education and a total enrollment of over 434,000 full and part-time students. Approximately 149,000 students lived within the geographic boundaries of the City in 2015. 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 Princeton University, Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University.

*University of Pennsylvania*

Penn, the first university in the U.S., founded in 1740, and a prominent Ivy League institution, is located in West Philadelphia across the Schuylkill River from downtown Philadelphia. In Fall 2016, more than 21,000 full-time undergraduate, graduate and professional full-time students attended Penn, 5,000 of which are international students. Approximately 3,600 part-time students were enrolled. As of December 2016, Penn had a total workforce of over 17,500 faculty and staff, and the University of Pennsylvania Health System had a workforce of 21,626 employees. In September 2016, Penn opened Pennovation Works, a 55,000 square foot business incubator and laboratory that houses researchers, innovators, and entrepreneurs for the commercialization of research discoveries.

Penn has undergone significant expansion in the last decade and has a growing endowment currently valued at $10.7 billion. In 2015, Penn, and related third-party developers, spent $932 million dollars on new buildings and renovations. A recent independent report conducted by Econsult Solutions, Inc. found that Penn and Penn Medicine had a combined economic impact on the City and state of more than $14 billion in fiscal year 2015 including $10.8 billion to the City. According to the same study, Penn generates $1 out of every $20 of Philadelphia's general fund and one out of every nine jobs in the Philadelphia economy.

*Drexel University*

Founded in 1891 as the Drexel Institute of Science, Art and Industry, Drexel University ("Drexel") is one of Philadelphia's top 10 private employers, and a major engine for economic development in the region. Drexel is known for its innovation and civic engagement, ranked a "top 15 most innovative school" by *U.S. News and World Report*. Drexel's student body consists of approximately 26,000, making it one of the 15 largest private universities in the country. Drexel is unique in that it provides its students with a co-op work experience every six months throughout the four year college experience. Over the last decade, Drexel has undergone significant expansion and has major plans for future development. In 2011, Drexel opened the doors to the $69 million Constantine N. Papadakis Integrated Sciences Building, a $92 million facility for its LeBow School of Business, and a new mixed use residential and retail project, Chestnut Square.

*Temple University*

Temple University ("Temple"), founded in 1884, 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. Temple features 17 schools and colleges, eight campuses, hundreds of degree programs and more than 38,000 students. Currently, an estimated 12,000 students live on or around the Temple campus. Temple's Board of Trustees approved a master plan, "Visualize Temple," in December 2014, and Temple has begun $1.2 billion of investment. Planned upgrades include improved green space, a student recreation facility, and academic buildings such as a library and a new science research lab.

**Family and Household Income**

Table 9 shows median family income, which includes related people living together, and Table 10 shows median household income, which includes unrelated individuals living together, for Philadelphia, the MSA, the Commonwealth and the United States. Over the period 2006-2015, median family income for Philadelphia increased by 14.7% (see Table 9), while median household income increased by 24.1% over the period 2006-2015 as a result of an influx of higher income households (see Table 10).

**Table 9**
**Median Family Income* for Selected Geographical Areas, 2006-2015**
**(Dollar Amounts in Thousands)**

| Year | Philadelphia | Philadelphia-Camden-Wilmington MSA | Pennsylvania | United States | Philadelphia as a percentage of the US |
|---|---|---|---|---|---|
| 2006 | $43.0 | $70.8 | $58.1 | $58.5 | 73.50% |
| 2007 | $44.9 | $74.0 | $60.8 | $61.2 | 73.37% |
| 2008 | $46.4 | $77.6 | $63.3 | $63.4 | 73.19% |
| 2009 | $45.7 | $76.9 | $62.2 | $61.1 | 74.96% |
| 2010 | $43.1 | $74.5 | $61.9 | $60.6 | 71.12% |
| 2011 | $42.7 | $75.7 | $63.3 | $61.5 | 69.43% |
| 2012 | $44.3 | $77.0 | $65.1 | $62.5 | 70.88% |
| 2013 | $44.6 | $78.2 | $66.5 | $64.0 | 69.69% |
| 2014 | $47.0 | $80.6 | $67.9 | $65.9 | 71.32% |
| 2015 | $49.3 | $83.0 | $70.2 | $68.3 | 72.18% |
| Change 2006-2015 | $6.3 | $12.2 | $12.1 | $9.8 | |

* Includes related people living together.
Source: 2015 American Community Survey 1-Year Estimates

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**Table 10**
**Median Household Income* for Selected Geographical Areas, 2006-2015**
**(Dollar Amounts in Thousands)**

| Year | Philadelphia | Philadelphia-Camden-Wilmington MSA | Pennsylvania | United States | Philadelphia as a percentage of the US |
|---|---|---|---|---|---|
| 2006 | $33.2 | $55.6 | $46.3 | $48.5 | 68.45% |
| 2007 | $35.4 | $58.3 | $48.6 | $50.7 | 69.82% |
| 2008 | $37.0 | $60.9 | $50.7 | $52.0 | 71.15% |
| 2009 | $37.0 | $60.1 | $49.5 | $50.2 | 73.71% |
| 2010 | $34.4 | $58.1 | $49.3 | $50.0 | 68.80% |
| 2011 | $34.2 | $58.3 | $50.2 | $50.5 | 67.72% |
| 2012 | $35.4 | $60.1 | $51.2 | $51.4 | 68.87% |
| 2013 | $36.8 | $60.5 | $52.0 | $52.3 | 70.36% |
| 2014 | $39.0 | $62.2 | $53.2 | $53.7 | 72.63% |
| 2015 | $41.2 | $65.1 | $55.7 | $55.8 | 73.84% |
| Change 2006-2015 | $8.0 | $9.5 | $9.4 | $7.3 | 2006-2015 |

* Includes unrelated people living together.
Source: 2015 American Community Survey 1-Year Estimates

One of the factors that contributes to a lower median household income is the fact that Philadelphia has the fifth largest undergraduate and graduate student population among major U.S. cities. These individuals, numbering approximately 140,412 according to the 2015 American Community Survey, or approximately 9.65% 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 historically led to an overstatement of the City's percentage of residents living at or below the poverty level.

**Cost of Living Index**

Philadelphia has the second lowest cost of living index among major cities in the Northeast, as shown in Table 11 below. Additionally, the City's Wage, Earnings, and Net Profits Tax Rates have decreased in Fiscal Years 2014, 2015, and 2016. See "REVENUES OF THE CITY – Wages, Earnings, and Net Profits Taxes" in APPENDIX A for this Official Statement.

**Table 11**
**2015-2016 Cost of Living Index* of Cities in the Northeastern U.S.**

| Metropolitan Area | Cost of Living Index |
|---|---|
| New York (Manhattan) | 228.2 |
| Washington-Arlington-Alexandria | 149.2 |
| Boston-Cambridge-Quincy | 148.1 |
| Philadelphia-Camden-Wilmington | 118.6 |
| Baltimore-Towson | 115.6 |

* Data reflects Q3 2015 – Q3 2016
Source: 2016 ACCRA Cost of Living Index

**Housing**

For purposes of the information included under this "Housing" subheading, the City engaged an outside consultant, Kevin C. Gillen, Ph.D., who prepared the text and tables below and conducted the analysis related thereto. As a professional in the field of urban and real estate economics, the City has relied on the analysis Dr. Gillen has provided below, but makes no representations regarding the accuracy of the findings set forth herein.

Philadelphia is a post-industrial city located in the northeast corridor of the U.S. between New York and Baltimore. Its housing stock is among the oldest of any city in the country, and has suffered from decades of depopulation and abandonment during the postwar era. Like many U.S. cities, Philadelphia has also undergone a significant revitalization in the past 25+ years, particularly in and around its downtown core of Center City. Philadelphia experienced a net population increase in the most recent Census for the first time since 1950, which was overwhelmingly due to new household growth in these aforementioned neighborhoods.

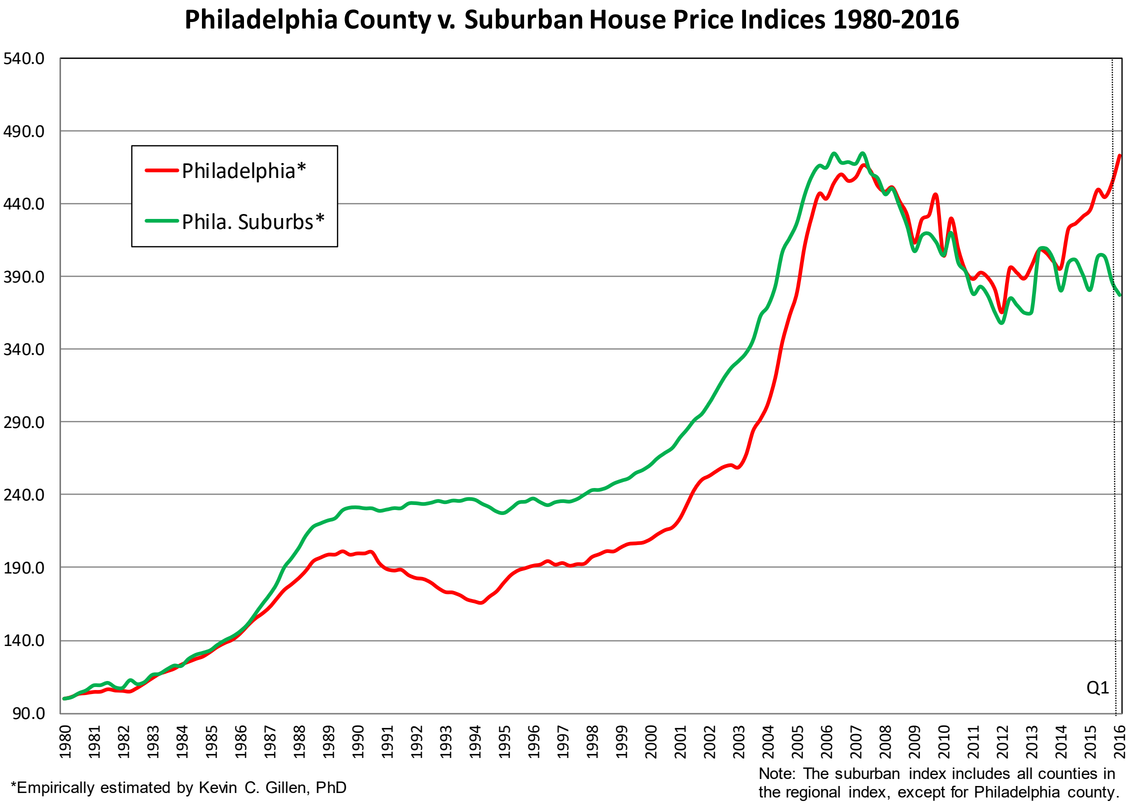
As population has continued to increase, many neighborhoods have undergone significant new construction and investment, leading to increases in the value of the City's housing stock, while large parts of the rest of the City continue to face significant challenges caused by the persistent problems of poverty, crime, underperforming schools and lack of employment opportunities. Most housing indicators for Philadelphia indicate a positive outlook for the near future.

The total housing stock, measured by the number of properties, increased by 3.3% from 2010-2015, for a total of 500,374 in 2015. While both single-family and multi-family unit stock increased over this five year period, the number of multi-family (structures with five or more dwelling units) units decreased by approximately 56.3% from 2014 to 2015. The homeownership rate in the City in 2015 was 52.9%, which represents a 7.2% decline over the prior five-year period. Alternatively, the rental market in the City has continued to improve with average monthly housing rent in 2015 equal to $1,209, which represents a 10.7% increase over the prior five-year period.

The data points referenced in this paragraph were derived from the following source: Philadelphia Recorder of Deeds, Philadelphia Office of Property Assessment, U.S. Census, National Multifamily Housing Council, and Trend MLS.

*Home Prices*

After nearly ten years of house price deflation and sluggish recovery, 2015 proved to be the best year for Philadelphia housing since the recession. Both the median house price and the house price index for Philadelphia hit new all-time highs. The following chart shows an empirically estimated house price index that displays the trajectory and level of average house prices in Philadelphia on a quality- and seasonally-adjusted basis (the red line) and a similar house price index for Philadelphia's suburbs (the green line). The index is computed via regression, using a hybrid hedonic repeat-sales specification, which is very similar to the same methodology used in the computation of the Case-Shiller House Price Indices.




Source: Philadelphia Recorder of Deeds, Computed by Kevin C. Gillen, PH.D.

The index is normalized to a starting value of 100 in its first period of 1980 Q1, with its percent change over time reflecting the average price appreciation (or depreciation) rate of the average Philadelphia home. After hitting a peak in mid-2007, the index began a 5-year decline of 23% before hitting bottom in early 2012. Since then, Philadelphia has lagged both other cities and the nation as a whole in its house price recovery. But, after making significant gains in the latter half of 2015 and early 2016, the current index stands at a value that is slightly higher than its peak in 2007, thus indicating that the aggregate loss in the value of Philadelphia's housing stock from the Great Recession has been erased.

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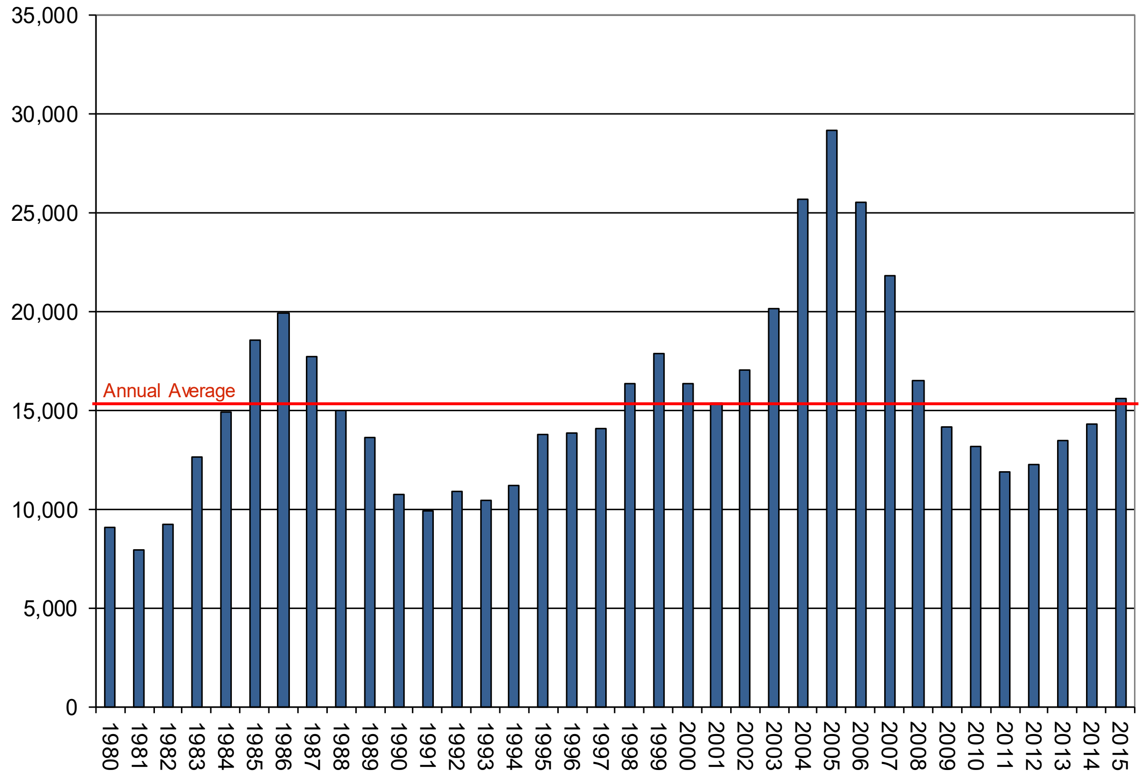
*Home Sales*

Another indicator of the housing market's recovery is the current level of home sales. The following chart shows the annual number of single-family house sales in Philadelphia since 1980. Only arms-length home sales at market-rate prices are counted in the following chart.

**Number of Philadelphia House Sales Per Year: 1980-2015**




Source: Philadelphia Recorder of Deeds

Like prices, home sales dropped significantly following the bursting of the housing bubble, and after hitting bottom in 2011 have only sluggishly recovered. However, in 2015, total home sales were just above 15,000 units in Philadelphia, which is back to its historic long-run annual average, and is at its highest level since 2008. As such, the 2015 level of home sales activity reflects the recovery of the City's housing market.

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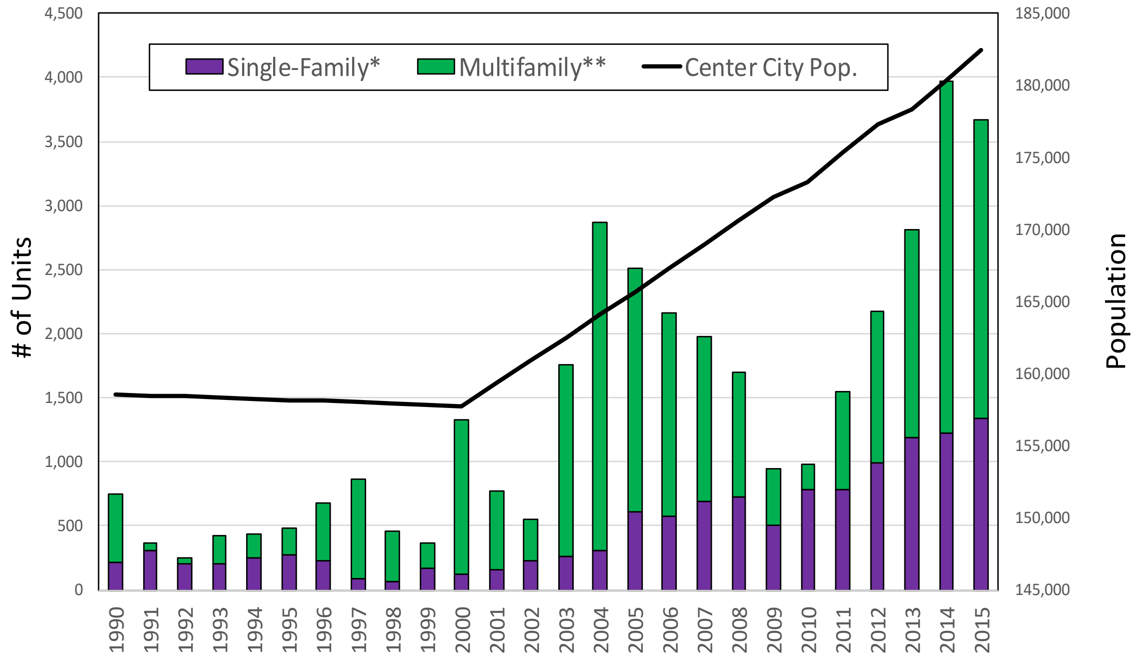
*Home Construction*

Homebuilding activity in Philadelphia has also made significant progress since hitting its recessionary low in 2009. The following chart shows the number of newly constructed units being added to Philadelphia's housing stock, as represented by the number of building permits issued for such units, from 1990 through 2015.

**Building Permits Issued for Construction of Residential Units in Philadelphia: Single-Family v. Multifamily**




*Structures with 1-4 dwelling units
**Structures with >=5 dwelling units

Source: U.S. Census

Because the overwhelming amount of current new construction is in and around the Center City (downtown) neighborhoods of Philadelphia, the above chart also shows total population growth in those same neighborhoods, as represented by the black line.

Prior to 2000, construction of new housing units in Philadelphia was low by both absolute and relative measures, averaging only 400 units per year, while population growth during this period was actually slightly negative. Following passage of a ten-year property tax abatement program[3] in 2000, construction began to grow steadily, hitting a peak of nearly 3,000 units in 2004. After declining to 947 units during the recession in 2009, construction activity has recovered steadily, and currently stands well above the boom years of the previous decade. In 2014, permits were issued to approve the construction of nearly 4,000 new housing units in Philadelphia—an all-time high. Although total permitting activity declined in 2015 from the previous year, total residential development activity still remains quite high,

[3] Under the tax abatement program, the value of any new improvements to real estate in Philadelphia is untaxed for the first ten years after the improvements are made. In the case of new construction, this is a substantial tax break to the owner because the entire structure represents an improvement. As such, the owner only pays real estate taxes on the value of the land for the first ten years after a new building is completed.

and appears justified by continued population growth. An easing in development activity could actually be taken as a positive sign, since it gives the market time to allow recently finished projects to be absorbed by the current population, rather than having the flow of supply (new units) exceed the flow in demand (new households).

**Office Market and New Development**

The City currently has approximately 44.7 million square feet of office space in the Central Business District ("CBD"), with an additional 2.4 million square feet under construction according to Jones Lang LaSalle's ("JLL") statistics for the fourth quarter of 2016. The CBD includes four submarkets: University City, the Navy Yard, Market Street East and Market Street West. Although total vacancy eased slightly in University City with the delivery of the new 49-story, 861,000 square foot FMC Tower at Cira South, JLL also reports that total vacancy in the City's other CBD submarkets remains tight at 10.2%. This low vacancy and the delay of delivery of other Class A office towers, have driven trophy rent in University City to surpass $50 per square foot (full service gross) and the conversion of Class B office space into Class A across the CBD. Properties undergoing redevelopment, especially those in the Market East submarket, are well positioned in current market conditions.

The average direct asking rental rates in the City's CBD rose to $30.24 per square foot in the fourth quarter of 2016. Markedly, the City's CBD enjoys rising rents with low overall total vacancy, the third lowest vacancy rate among peer CBDs across the nation, while its suburban counterparts have higher overall total vacancy and lower rents during the same period, at 14.1% and $25.87 per square foot.

Table 12 shows comparative overall fourth quarter 2016 office vacancy rates for selected office markets.

**Table 12**
**Total Office Vacancy Rates of Selected Office Markets**
**Central Business Districts, Fourth Quarter 2016**

| Market | Vacancy Rate |
|---|---|
| New York-Midtown South | 7.5% |
| Boston | 9.4% |
| Philadelphia | 10.2% |
| Chicago | 10.3% |
| New York-Midtown | 10.6% |
| New York-Downtown | 11.6% |
| Washington, DC | 12.0% |
| United States CBD, All Markets | 12.1% |
| San Antonio | 12.8% |
| Baltimore | 14.0% |
| Detroit | 14.1% |
| San Diego | 14.6% |
| Houston | 16.1% |
| Los Angeles | 16.3% |
| Cleveland | 20.5% |
| Phoenix | 21.7% |

Source: Jones Lang LaSalle, National CBD Data, Fourth Quarter 2016

Notable developments include the lease-up of FMC Tower to 95% committed within six months of its delivery. Tenants include Spark Therapeutics, Lutron, Penn, FreedomPay, and NASDAQ. Comcast's $1.2 billion Comcast Technology Center is on schedule to deliver in the first quarter of 2018. The new skyscraper will enable Comcast to consolidate employees currently scattered at several sites (in both Philadelphia and the surrounding suburbs) into 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. Comcast also recently clarified plans for a startup accelerator within the building, to be branded as LIFT Labs for Entrepreneurs. The tower will also serve as the new home to the Four Seasons Hotel, which will occupy the tower's top floors with 222 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.

**Retail Market, Food and Dining**

According to a December 2016 Center City District report, Philadelphia's retail market has grown substantially and with nearly 185,000 residents, 300,000 workers, 3.1 million occupied hotel room nights and 117,000 college students in and around Center City, the market generates more than $1 billion in retail demand. The report also states that Center City's "affluent and highly educated residential demographic has attracted more than 45 national retailers since 2013. More than 2 million square feet of retail is under construction downtown, as older shopping streets are being redeveloped and Philadelphia's prime retail district continues to expand." According to Commercial Brokers Real Estate's Fall 2016 Report "Philadelphia Urban Retail," Center City's retail rental rates have risen faster than all North American cities other than Miami. The Center City District also reports that pedestrian volumes along West Chestnut now match and surpass pedestrian volumes along West Walnut, the City's traditional "high street." In January 2015, Philadelphia was named the second of 24 "Best Shopping Cities in the World," by Condé Nast Traveler Magazine, behind Barcelona.

Market East, an important commercial area nestled between City Hall and the City's historic district is experiencing a development boom. The revitalization of this section of the City, containing a major transport hub, is expected to be transformative. Most notably, the planned redevelopment of The Gallery at Market East into the Fashion Outlets of Philadelphia is one of the biggest developments in the area. This 430,000 square foot urban retail mall complex features 130 stores. In April 2013, Pennsylvania Real Estate Investment Trust ("PREIT") acquired single entity ownership of The Gallery at Market East. In July 2014, the Macerich Company, which owns 55 shopping centers across the nation, acquired a 50% interest in The Gallery. In December 2015, Macerich and PREIT closed on their agreement for the $325 million redevelopment of the shopping center. Interior demolition of The Gallery at Market East began in 2016 with an estimated completion date of Q4 2018.

Recent improvements along East Market Street also include the 2014 opening of New York-based department store Century 21, the chain's first store outside of New York City, in a 95,000 square foot space that was previously vacant. Also, in March 2014, NREA Development Services announced a mixed-use redevelopment project, called East Market, also located on Market Street between 11th and 12th Streets. Once completed in the late spring of 2017, the project will include 325 apartments, and up to 122,000 square feet of retail space. Just one block south of Market Street, as of July 2016, Brickstone Co. has completed construction of a mixed-use redevelopment project. The project is a mix of new construction and historic preservation and includes up to 115 apartments and 90,000 square feet of retail space. Tenants include Target Express, one of two Center City locations that opened in 2016.

Complementing the rise of retail in Philadelphia, the City has experienced a revival of restaurant establishments, especially in Center City and in the Greater Center City area, indicating an improved quality of life and vibrancy of those neighborhoods. The Center City District's investment in 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 Center City. From 1992 to 2010, the number of fine dining establishments within the Center City District increased 322%. Preliminary data reports that foodservice and drinking establishments employed about 48,800 people in 2015, representing an average annual growth of 2.4% since 2005.

## ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION

### City of Philadelphia Economic Development Mission and Goals

The City's economic development strategy is to (1) spur job-creation by fostering an improved business environment; (2) increase the City's population and visitation; and (3) enhance quality of life within the City – all in order to grow the City's tax base and market competitiveness. The City partners with numerous quasi-city and private agencies to accomplish these objectives.

The City 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 in which eligible businesses may be exempt from all Commonwealth and local business taxes until a specified date; (iii) Commonwealth-designated Keystone Innovation Zones 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 Improvement Districts and reimbursement for certain storefront and interior retail improvements.

The City has also actively worked to raise its profile in the international business community. In October 2015, Philadelphia received the designation of the first World Heritage City in the United States by the Organization of World Heritage Cities. In summer 2015, the City entered into a "sister city" agreement with Frankfurt, Germany, considered the largest financial center in continental Europe. This agreement is Philadelphia's first sister city since 1992. In September 2016, a delegation of City officials and business leaders participated in a trade mission to Germany, France and Portugal further enhancing Philadelphia's relationship with these three countries. In fall 2014 and 2015, Philadelphia hosted delegations of Israeli high-tech companies following a 2013 Israeli trade mission. Additionally, by participating in the Global Cities Initiative with multiple private stakeholders, the City of Philadelphia is supporting the development of a metro export growth plan, which launched in spring 2016.

### City and Quasi-City Economic Development Agencies

*City of Philadelphia Department of Commerce*

The mission of the Department of Commerce, a 75-person City agency, is to ensure that Philadelphia is a globally-competitive city where employers hire, entrepreneurs thrive, and innovation abounds; to recruit and retain a diverse set of businesses; to foster economic opportunities for all Philadelphians in all neighborhoods; and to partner with workforce development programs and local businesses on talent development with the goal of ensuring that all Philadelphians can find and retain living-wage jobs. The Department of Commerce has three major divisions: Neighborhood & Business Services; Office of Business Development and Office of Economic Opportunity.

*City of Philadelphia Department of Planning and Development*

The Department of Planning and Development oversees all planning, real estate development support, and commissions such as Historical Commission, Planning Commission, Art Commission and Civic Design Review. Planning and Development also oversees all housing initiatives and plays a key role in community development.

*Philadelphia Industrial Development Corporation (PIDC)*

PIDC is a non-profit organization founded by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce in 1958. PIDC offers flexible financing tools, a targeted portfolio of industrial and commercial real estate, and expertise to help clients invest, develop, and grow in Philadelphia. PIDC also structures and invests in public-private partnerships for key City policy areas and development priorities. Since its inception, PIDC and its affiliates have settled approximately 6,700 transactions, including $14 billion in financing that has leveraged over $25 billion in total investment and assisted in creating and retaining hundreds of thousands of jobs. Its direct loan and managed third-party portfolio at the start of 2016 exceeded $642 million, representing 520 loans.

*Philadelphia Redevelopment Authority (PRA)*

In 1945, the Commonwealth enacted the Urban Renewal Law and created the PRA as the City's urban renewal agency. Today, the PRA continues its role as a key financer, project manager, leader, and expert of developing and maintaining land in the City of Philadelphia. The PRA is one of five municipal land holding agencies. Its Real Estate Division facilitates the redevelopment of PRA assets and it provides project management and analysis for real estate sales, acquisitions, redeveloper agreements, developer submissions and required approvals. Its Housing Department leads the underwriting and loan closing process for all affordable housing projects within the City of Philadelphia and works primarily with non-profit and for-profit developers as a lender.

*Philadelphia Land Bank (PLB)*

A new institutional partner in land use is the recently established the PLB. The aim of the PLB is to consolidate many of the land acquisition and disposition processes of the City under one umbrella, making it easier for private individuals and organizations to acquire properties that otherwise contribute to neighborhood disinvestment and turn them into assets for the community in which they are located. The PLB can: (i) consolidate properties owned by multiple public agencies into single ownership to speed property transfers to new, private owners; (ii) acquire tax-delinquent properties through purchase or by bidding the City's lien interests at a tax foreclosure; (iii) with consent of the City, clear the title to those properties so new owners are not burdened by old liens; and (iv) assist in the assemblage and disposition of land for community, non-profit, and for-profit uses.

*The Division of Housing and Community Development (DHCD)*

DHCD, formerly known as the Office of Housing and Community Development (OHCD), and now part of the City's Department of Planning and Development, manages planning, policy and investment in low-income housing through several assistance programs. Most significantly, the DHCD 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 Housing Authority (PHA)*

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. Over 93% of PHA's annual budget is funded directly or indirectly by the U.S. Department of Housing and Urban Development, and most of the balance of PHA's budget is derived from resident rent payments. Neither PHA's funds nor its assets are available to pay City expenses, debts or other obligations, and the City has no power to tax PHA or its property. Neither the City's funds nor its assets are subject to claims for the expenses, debts, or other obligations of PHA.

*Rebuilding Community Infrastructure Program (REBUILD)*

Rebuild is a new $500 million initiative to revitalize neighborhood parks, recreation centers, playgrounds, and libraries across the City over a seven-year period. This program is intended to catalyze economic development in some of Philadelphia's most impoverished communities and neighborhoods. Rebuild is not only committed to making transformative capital improvements in neighborhood public and shared spaces, but will also strive to build capacity and opportunities for minority and women-owned businesses and job opportunities for local residents.

**Key Commercial Districts and Development**

Over the last two decades the efforts of Philadelphia's economic development agencies and others have spurred significant economic revitalization throughout the City. In particular, a number of geographic areas have experienced concentrated developments: Philadelphia's Historic District, Avenue of the Arts, North Broad Street, and the Benjamin Franklin Parkway. Many of these developments, such as a significant increase to Philadelphia's hotel room inventory in Center City Philadelphia and expansion of the Pennsylvania Convention Center, are key to the growth of Philadelphia's leisure and hospitality sector. Several key areas within the City have been instrumental in the economic and commercial development of Philadelphia over the past twenty-five years and the population growth since 2000.

*Center City*

A district that has seen a resurgence over the last two and a half decades, Center City is Philadelphia's central business and office region within the City. Center City is the strongest employment center in the City. 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 the Center City District, one of the City's business improvement districts, 290,664 riders took public transportation into Center City on the average weekday in 2015. Center City is flanked by neighborhoods that are considered "Greater Center City." Over the last two decades, as there has been an influx of new businesses and residents in these neighborhoods, the boundaries of Greater Center City have moved significantly further North and South, with the Delaware and Schuylkill rivers remaining boundaries on the East and West. 2016 saw a record number of new residential units for a growing downtown population, with 2,506 new units in Greater Center City, a 15.5% increase over the previous high of 2,168. Of these, 73% are rental apartments and 27% were for-sale housing. Six large projects of 100 units or more account for 73% of all new apartments (1,331 units) completed in 2016. Recent and current key developments in Center City listed in Table 13 below total more than $4.1 billion.

*Old City*

Old City is home to some of the country's oldest historical assets and is considered America's "most historic square mile." Independence National Historical Park is an international destination, attracting 3.6 million visitors annually. Important culturally and economically, Old City is also home to world-class museums, theaters and art galleries. The neighborhood offers excellent hotels, a wide range of dining and nightlife establishments, independent retailers and a diverse mix of technology, media, professional and service organizations. Some 8,000 residents live in historic townhouses, industrial loft apartments and new condominium properties. Old City is located within a Keystone Innovation Zone, meaning that technology, energy and life sciences businesses may be eligible for up to $100,000 in tax credits. Old City District (OCD) is a business improvement district that promotes the area and fosters economic development locally. OCD helps companies find suitable real estate and actively promotes the sector to attract businesses. Over the last few years, technology and creative businesses have established an increasingly important presence in the area.

*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 approximately 11% of the City's employment in 2015. 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. University City has experienced significant real estate development, driven mostly through the investment of its universities and research institutional anchors. The University of Pennsylvania built the $88 million Singh Center for Nanotechnology in 2013 and is investing $127 million in a new residence hall called New College House at Hill Field. Drexel University invested nearly $300 million into University City in 2013, and is planning for an additional $3.5 billion over 20 years in the development of Schuylkill Yards in partnership with Brandywine Realty Trust. This project will develop 14 acres of underutilized land near Philadelphia's 30th Street Station into an innovation neighborhood. It will feature a mix of entrepreneurial spaces, educational facilities and research laboratories, corporate offices, residential and retail spaces, hospitality and cultural venues and public open spaces.

*The Navy Yard*

The Navy Yard is a 1,200 acre mixed-use office, research and industrial park with over 13,000 people working on site across 150 companies. The Navy Yard has diverse tenants such as Philly Shipyard, one of the world's most advanced commercial shipbuilding facilities; the global headquarters for retailer Urban Outfitters, Inc.; a 208,000 square foot, double LEED Platinum corporate office for pharmaceutical company GlaxoSmithKline; and a LEED Silver bakery facility for the Tasty Baking Company. More than 7.5 million square feet of space is currently occupied or in development with significant additional capacity available for office, industrial, retail and residential development.

PIDC and its partners released an updated Navy Yard master plan in 2013, detailing a comprehensive vision for the Navy Yard. The plan calls for a total of over 13.5 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 30,000 employees and over $3 billion in private investment. Currently, PIDC is negotiating changes to deed restrictions with the U.S. Navy to allow the construction of housing at Philadelphia's Navy Yard.

The Navy Yard continues to grow, adding over 500 employees and attracting four new companies in 2016, bringing the Navy Yard closer to its strategic targets. Recently completed construction projects include: 4701 League Island Blvd, the third facility on campus for WuXi AppTec, a leading pharmaceutical and biotechnology company; 1200 Intrepid Ave, the new LEED Gold office building designed by world-renowned architecture firm Bjarke Ingels Group; and most recently, in March 2017, UK-based life sciences company, Adaptimmune, opened its U.S. headquarters and Clinical and Manufacturing Operations at the Navy Yard. This was in addition to the City's announcement in September 2015 that Axalta Coating Systems, an advanced coatings manufacturer, is developing a 175,000 square foot Global Innovation Center at the Navy Yard, which is under construction and slated to open in 2018. Since 2000, the Navy Yard has leveraged more than $150 million in publicly funded infrastructure improvements to spur more than $750 million in new private investment.

**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 City adopted a Master Plan for the central Delaware River in 2011. The Delaware River Waterfront Corporation (the "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. Successful park projects include Race Street Pier in 2011, Washington Avenue Green in 2014, and Pier 68 in September 2015. All three parks are adaptive reuse projects built on former pier structures. 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. Recently the City announced a $90 million commitment to cap I-95 and build an 11-acre expanse of greenery between Walnut and Chestnut streets, as part of an estimated $225 million project to better connect Center City with the waterfront.

*Schuylkill River Development Corporation*

Redevelopment along the Schuylkill River is managed by a partnership among the Schuylkill River Development Corporation (the "SRDC"), the Department of Parks & Recreation, and the Department of Commerce. SRDC works with federal, Commonwealth, 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 2015, $60 million was invested by SRDC, the City, and their partners along the tidal Schuylkill 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. The latest Schuylkill Trail extension running from Locust Street to South Street, called the Boardwalk, opened in October 2014 and plans to extend the trail farther south to Christian Street are in final design stages. In October 2015, Philadelphia was awarded $10.265 million in federal TIGER grants, split among three projects across the City. The City will use $3.265 million of the grant to convert an abandoned swing rail bridge over the Schuylkill River near Grays Ferry into a bridge trail.

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 publicly 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. Forty-five thousand cubic yards of soil, 2,200 pilings and more than 500 trees were installed to create canopied hills and picnic areas.

*Sugarhouse Casino*

Legislation enacted by the Pennsylvania General Assembly authorized two stand-alone casino 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. 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, completed in 2015, added 500 additional employees to the casino. After a period of significant gains from 2010 through 2012, SugarHouse revenue has leveled off. In fiscal year 2015, the casino's total revenue was $271,201,316, an increase of 0.6% from 2013, and it employed 1,204 people in 2015, up from 1,128 in 2013.

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**Table 13**
**Selected Major Development Investments Recently Completed or Under Construction**
**(as of March 2017)**

| Project Name, by Neighborhood | Project Type | Cost in Millions | Est. Completion Date |
|---|---|---|---|
| CENTER CITY | | $4,000.00 | |
| 1919 Market Street | Mixed Use | 148.0 | Complete Q2 2016 |
| 1116-28 Chestnut | Mixed Use | 75.0 | Complete Q3 2016 |
| Rodin Square, Whole Foods | Mixed Use | 160.0 | Complete Q3 2016 |
| 1601 Vine Street | Residential | 120.0 | Complete Q3 2016 |
| Mormon Temple | Religious | 70.0 | Complete Q4 2016 |
| The Sterling – Redevelopment | Residential | 75.0 | Complete Q1 2017 |
| East Market (formerly Girard Square) | Mixed Use | 250.0 | Q2 2017 |
| One Riverside | Residential | 90.0 | Q3 2017 |
| View 32 - 3201 Race Street | Residential | 55.0 | Q3 2017 |
| 1213 Walnut | Residential | 125.0 | Q3 2017 |
| Comcast Innovation and Technology Center | Commercial/Hotel | 1,200.0 | Q4 2017 |
| Park Towne Place – Redevelopment | Residential | 200.0 | Q1 2018 |
| 2400 Market | Mixed Use | 230.0 | Q1 2018 |
| National Building | Residential | 23.0 | Q2 2018 |
| W Hotel/Element | Hotel | 359.0 | Q2 2018 |
| The Hamilton | Residential | 130.0 | Q3 2018 |
| The Gallery | Commercial | 100.0 | Q4 2018 |
| 1911 Walnut | Mixed Use | 300.0 | 2018 |
| Hanover North Broad | Mixed Use | 50.0 | 2018 |
| SLS Hotel and Residences | Residential and Hotel | 240.0 | Q1 2019 |
| NAVY YARD | | $184.2 | |
| 4701 League Island Blvd | Commercial | 34.5 | Complete Q3 2016 |
| 1200 Intrepid | Commercial | 47.7 | Complete Q3 2016 |
| Adaptimmune | Commercial | 23.5 | Complete Q1 2017 |
| Axalta R & D Facility | Commercial | 67.5 | Q4 2017 |
| Pavilion | Commercial | 11.0 | Q4 2018 |
| OLD CITY | | $365.0 | |
| American Revolution Center | Arts & Culture | 101.0 | Complete Q1 2017 |
| 205 Race Street | Residential | 65.0 | Q2 2017 |
| 500 Walnut | Residential | 174.0 | Q2 2017 |
| 218 Arch | Mixed Use | 25.0 | Q4 2017 |
| OTHER NEIGHBORHOODS | | $272.0 | |
| One Water Street | Residential | 65.0 | Q3 2016 |
| Philadelphia Mills | Commercial | 34.0 | Q4 2016 |
| Divine Lorraine | Residential | 43.0 | Q2 2017 |
| Lincoln Square | Mixed Use | 130.0 | Q1 2018 |
| UNIVERSITY CITY | | $2,588.0 | |
| FMC Tower at Cira Centre South | Mixed Use | 385.0 | Complete Q1 2017 |
| New College House at Hill Field | University Residential | 127.0 | Complete Q3 2016 |
| The Study at University City | Hotel | 50.0 | Complete Q3 2016 |
| University of Pennsylvania Pennovation Works | Commercial | 26.0 | Complete Q4 2016 |
| CHOP Schuylkill Ave Expansion | Health Care | 250.0 | Q2 2017 |
| 4601 Market - Public Safety Services Campus | Public | 250.0 | Q2 2018 |
| Penn Health Tower | Health Care | 1,500.0 | Q2 2021 |
| TOTAL | | $7,409.2 | |

Source: Philadelphia Department of Commerce

## TOURISM AND HOSPITALITY

Philadelphia has experienced a significant increase in tourism over the last decade, fueled by several high profile, global events that the City hosted, notably the 2015 World Meeting of Families, culminating in a papal visit from Pope Francis, and the Democratic National Convention in 2016. In April 2017, Philadelphia hosted the NFL Draft, which is estimated to have brought approximately 250,000 people to Center City. Both business and convention tourism as well as leisure tourism were at a record high in 2016. In January 2015, the New York Times ranked Philadelphia third on its listing of "52 Best Places to Visit in 2015," the top listing for a location in the United States.

The Philadelphia Convention and Visitors Bureau (PHLCVB) books meetings, conventions and sporting events and supports international marketing of Philadelphia overseas. PHLCVB also books domestic group tours. Tourism Economics, an Oxford Economics Company, reported that international visitors from overseas to Philadelphia in 2015 numbered more than 638,000, spending $595 million generating $982 million in total economic impact to the Philadelphia region. According to the same source, Philadelphia ranks as the 15th most visited city in the U.S. by overseas travelers. Philadelphia's international visitation has seen significant growth over the past decade, a 27% growth in overseas travelers since 2006 (up from 501,000 in 2006).

The PHLCVB has booked 569 meetings, conventions and sporting events for future years. These groups will bring a total of 2.4 million attendees to Philadelphia consuming 3.5 million room nights and generating an estimated $4.8 billion in total economic impact.

Visit Philadelphia markets Philadelphia domestically, as well as in Canada and Mexico, to promote leisure travel. Philadelphia has attracted more overnight leisure travelers than ever before and Center City hotels reached a landmark 1 million leisure room nights in 2016. Further, several big and new-to-the-city brands are preparing to enter the market during the next two years, along with smaller boutique hotels. Leisure hotel room stays have increased 287% since 1997 and in 2016 the estimated economic impact of leisure travel was $107 billion according to the Visit Philly 2016 Annual Report.

**Table 14**
**Greater Philadelphia† Visitation Growth, 1997-2015**
**(In Millions)**

| | 1997 | 2015 | Net Change | Percent Growth |
|---|---|---|---|---|
| Total Visitation | 26.7 | 41.1 | 14.4 | 54% |
| Day - Leisure | 15.5 | 21.9 | 6.4 | 41% |
| Overnight - Leisure | 7.3 | 14.3 | 7.0 | 96% |
| Day - Business | 2.5 | 2.7 | 0.2 | 8% |
| Overnight - Business | 1.4 | 2.2 | 0.8 | 57% |

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

Philadelphia has seen an influx in new hotel development, with numerous new developments underway or confirmed. Table 15 lists notable hotel developments since 2015, representing over $1 billion in investment. 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. In 2016, the City's hotel room inventory was 16,115 rooms, with occupancy at 76.7%. Several hotel projects are currently under development, which will increase hotel room inventory by more than 1,300 rooms.

In October 2013, City Council approved a tax increment financing assistance package for the development of a 755-room hotel, home to both the W and Element brands, which will serve as an anchor to the Convention Center. Additionally, in February 2014, the City 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, currently projected to be completed in 2019. The 222-room Four Seasons Hotel will reopen in 2017 on the top 12 floors of the Comcast Innovation and Technology Center.

**Table 15**
**Notable Hotel Developments From 2015 And Projected Forward, In Millions**
**(As of March 2017)**

| Project Name | Cost (millions) |
|---|---|
| The Logan Hotel (2015) | $28 |
| The Study at University City (2016) | $50 |
| 101 N. Broad Street Hotel (expected opening in 2017) | - |
| Four Seasons Hotel in Comcast Tower (expected opening in 2017) | - |
| SLS Hotel and Residences | $240 |
| Aloft by Starwood (expected opening in 2017) | |
| W Hotel/Element Hotel (expected opening in 2018) | $359 |
| Conversion of former Family Court Building (projected opening in 2019) | $85 |
| **Total** | **$762** |

*Museum and Cultural Centers*

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 2016, Lonely Planet named Philadelphia on its top-10 best list of "unexpectedly exciting places to see." In 2015, the top attractions in Philadelphia, including the Independence National Park, the Philadelphia Zoo, and the Philadelphia Museum of Art, had over 14.5 million visitors according to the Philadelphia Business Journal.

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. The Greater Philadelphia Cultural Alliance reported in 2012 that cultural institutions in the PMSA contributed an estimated $1.4 billion in household income in 2011, with $490.3 million in Philadelphia County alone. 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.

*Avenue of the Arts (South Broad Street) Investments*

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 more than two decades. 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 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.

*The Benjamin Franklin Parkway*

Complementing the Avenue of the Arts theater district developments, the Benjamin Franklin Parkway is considered the spine of Philadelphia's museum district. Designed by French architect Jacques Gréber, to emulate the Champs Elysées of Paris, the Parkway opened in 1929. It runs from the area of City Hall to the Philadelphia Museum of Art and is a central public space and tourist attraction. Key Parkway features include Love Park – which is undergoing major renovations estimated to be completed in 2017, the Philadelphia Museum of Art, the Rodin Museum, the Franklin Institute, The Barnes Foundation, the Free Library of Philadelphia, the Academy of Natural Sciences, the Swann Memorial Fountain, Sister Cities Park, Cathedral Basilica of Saints Peter and Paul on Logan Square, and numerous pieces of public art.

Opened in May 2012, The Barnes Foundation is a welcome addition to the City's impressive roster of arts facilities, and has had a significant impact on the City's leisure and hospitality industry. In October 2015, the Barnes welcomed its one millionth visitor since opening on the Parkway. With membership over 85,000, it is ranked among the top institutions of its kind in the country.

*Historic District*

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 of improvements have been made in Philadelphia's historic district, with an additional $120 million either under construction or planned over the next three years. 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.

*North Broad Street and the Philadelphia Convention Center*

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 Convention Center, instituting a number of measures intended to reduce and control show costs and improve customer service. In May 2014, SMG implemented new work rules through a customer service agreement signed by the Convention Center and four of six unions. The Convention Center continues to operate with no plans to replace the two unions that did not sign the agreement. In February 2016, the Convention Center announced that 2015 was its highest booking year ever with 856,663 bookings, a 1.2% increase from 2014, representing an estimated $1.1 billion in future economic impact. The 2011 expansion of the Pennsylvania Convention Center reignited development efforts along this key corridor of North Broad Street. Improvements include Lenfest Plaza, which is adjacent to the Pennsylvania Academy of Fine Arts and across from the Pennsylvania Convention Center expansion entrance. Adjacent to the Convention Center, a 178-room Aloft Hotel by Starwood is under construction and expected to open in 2017.

*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 the City, the Sports Complex Special Services District, created by the City in 2000.

The South Philadelphia Sports Complex houses three professional sports facilities: The Wells Fargo Center opened in 1996 and is home to the Philadelphia Flyers (National Hockey League) and Philadelphia 76ers (National Basketball Association); Lincoln Financial Field opened in 2003 and is home to the Philadelphia Eagles (National Football League); and Citizens Bank Park opened in 2004 and is home to the Philadelphia Phillies (Major League Baseball). The Phillies and the Eagles are contractually obligated to play in Philadelphia until 2033 and 2034, respectively.

Average paid home season attendance for the Eagles in Lincoln Financial Field has exceeded 100% of actual seating, since its opening in 2003. 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. However, team performance has contributed to a significant decline in overall attendance, dropping the Phillies attendance ranking to 16 out of 30 teams in 2014, 25 out of 30 in 2015, and 24 out of 30 in 2016.

In 2012, Xfinity Live! Philadelphia, a 50,000 square foot sports entertainment and dining complex, opened within the sports complex. 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. Cordish is currently in early conceptual planning stages of a phased expansion of the complex that could include retail, hotel and theater space. The entire complex is open year-round and sustains 276 full-time equivalent jobs.

In November 2014, the Pennsylvania Gaming Control Board awarded the City's remaining casino license to Live! Hotel & Casino, a joint venture between Cordish Cos. and Greenwood Gaming and Entertainment Inc. The $425 million, 200,000-square-foot casino will include a 240-room hotel, 2,000 slots and 125 table games. It will also have a spa and conference center built in and around an existing Holiday Inn at the South Philadelphia Sports Complex. The license award has been challenged by several court appeals; in March 2016, the Pennsylvania Supreme Court ruled that the Pennsylvania Gaming Control Board must take a closer look at the company's ownership structure. Cordish was granted zoning approval in December 2015 and plans to complete the project in 2018, pending further approvals.

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## 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. For more information on SEPTA, see “ECONOMIC BASE AND EMPLOYMENT – Southeastern Pennsylvania Transportation Authority (SEPTA)” and APPENDIX A – “EXPENDITURES OF THE CITY – City Payments to SEPTA.”

A high-speed train line runs from southern New Jersey to Center City and is operated by the Port Authority Transit Corporation (“PATCO”), a subsidiary of the Delaware River Port Authority. On the average weekday, PATCO brings approximately 15,000 individuals to Philadelphia.

New Jersey Transit operates 19 different bus routes and the Atlantic City Train Line, all of which serve to connect Philadelphia and New Jersey. On the average weekday, the New Jersey Transit bus routes bring approximately 2,000 individuals to Philadelphia and the Atlantic City Line brings approximately 700 individuals to Philadelphia.

Amtrak, SEPTA, Norfolk Southern, CSX Transportation, Conrail and the Canadian Pacific provide inter-city commuter and freight rail services connecting the City to other major cities and markets in the United States. According to Amtrak, Philadelphia’s 30th Street Station is the third 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 Interstate 95 (“I-95”); Interstate 676 (the “Vine Street Expressway”), running east-to-west through the Central Business District between Interstate 76 (the “Schuylkill Expressway”) and I-95; and Interstate 476 (the “Blue Route”) in suburban Delaware and Montgomery Counties, which connects the Pennsylvania Turnpike and I-95 and connects to the Schuylkill Expressway, which runs to Center City Philadelphia. In addition, more than 100 truck lines serve the Philadelphia area.

The City is served within city limits by numerous private buses and shuttles. These buses and shuttles are operated by apartment complexes, universities, and private companies. These buses and shuttles connect Philadelphians to transit hubs, employment, and residences. A rail line reaches PHL in less than 20 minutes from the City’s central business district and connects directly with the commuter rail network and the Pennsylvania Convention Center.

Philadelphia launched the Indego bike share program, sponsored by Independence Blue Cross, in April 2015. The system launched with 600 bicycles and 70 stations throughout the City from Temple University in North Philadelphia to Tasker Street in South Philadelphia and from the Delaware River to 44th Street in west Philadelphia. Indego is the first bike share system in the United States to launch with a cash payment option for members. In 2016, the City expanded Indego to 1,000 bicycles and 103 bike share stations.

### Southeastern Pennsylvania Transportation Authority (SEPTA)

SEPTA operates facilities across the five-county Greater Philadelphia area encompassing approximately 2,200 square miles and serving approximately 4.0 million inhabitants. SEPTA operates service 24 hours a day, seven days a week, 365 days a year. SEPTA’s Fiscal Year 2016 operating budget totals $1.365 billion. This is supported by $829 million in federal, state, and local subsidies, as well as

$535 million of operating revenue. A significant segment of the region relies on SEPTA for public transportation and annual SEPTA ridership totaled more than 326.1 million in Fiscal year 2016.

SEPTA's operations are accounted for in three separate divisions, the percentages following each division representing its approximate share of SEPTA's expense budget: City Transit (67%); Regional Rail Division (23%); and Suburban (10%). The City Transit Division serves the City with a network of 84 subway-elevated, light rail, trackless trolley and bus routes, providing approximately 902,000 unlinked passengers trips per weekday. The Regional Rail Division serves the City and the local counties with a network of 13 commuter rail lines providing approximately 123,000 passenger trips per weekday.

Beginning in Fiscal Year 2015, SEPTA's annual capital budget and 12-year capital program have increased significantly. The Fiscal Year 2016 capital budget is $534.5 million, representing a 74% increase over the Fiscal Year 2014 budget of $308 million. The Fiscal Year 2016-2027 capital program also increased significantly to $6.8 billion from $3.7 billion in the Fiscal Year 2014-2025 capital program. These increases are largely the result of the passage of Pennsylvania Act 89 in 2013 ("Act 89"), a state transportation funding bill.

SEPTA's increased capital budget will enable it to address a variety of needs. First, SEPTA will address its State of Good Repair ("SGR") backlog, which has grown as a result of funding shortfalls in previous years. In addition to renovating and upgrading substations, bridges, stations, and aging rail vehicles, SEPTA will also focus on expanding its capacity to serve a growing ridership and enhance accessibility to public transportation. Other projects and expenses supported by the capital program include the New Payment Technology project, expansion of the fleet of hybrid busses, installation of federally-mandated Positive Train Control signal technology, vehicle overhauls, capital leases, and debt service.

*Recent Ridership Trends*

Demand for public transportation has steadily increased over the past decade in the City, and in Fiscal Year 2012, SEPTA experienced its highest ridership in 25 years and in Fiscal Year 2015, SEPTA experienced its highest ridership ever for regional rail. For the first quarter of Fiscal Year 2017, SEPTA has reported an overall ridership increase of 4.5%, when compared to the same period for Fiscal Year 2016. However, SEPTA Regional Rail has been impacted by a rail car shortage, resulting from a defect discovered on new rail cars causing 120 cars to be pulled from service. Such shortage has resulted in an approximately 9.1% decline in Regional Rail trips and an overall passenger revenue decrease of 2.3% when compared to the same period for Fiscal Year 2016.

**Airport System**

The Airport System serves residents and visitors from a broad geographic area that includes eleven counties within four states: Pennsylvania, New Jersey, Delaware and Maryland. The Airport System consists of the following:

*Philadelphia International Airport (PHL)*

PHL is classified by the Federal Aviation Administration as a large air traffic hub (enplaning 1.0% or more of the total passengers enplaned in the U.S.). According to data reported by Airports Council International – North America, PHL was ranked the nineteenth busiest airport in the United States, serving 30.7 million passengers in calendar year 2014 (i.e. total passengers enplaned and deplaned), and was ranked the twelfth busiest in the nation based on aircraft operations. PHL consists of approximately 2,426 acres located partly in the southwestern section of the City and partly in the northeastern section of Delaware County, about 7.2 miles from Center City Philadelphia. PHL's runway system consists of parallel Runways 9L-27R and 9R-27L, crosswind Runway 17-35, commuter Runway 8-26, and interconnecting taxiways.

PHL terminal facilities include approximately 3.3 million square feet, consisting of seven terminal units (A-West, A-East, B, C, D, E and F). The terminal facilities principally include ticketing areas, passenger hold rooms, baggage claim areas and approximately 180 food, retail and service establishments. There are certain other buildings and areas located at PHL, consisting of six active cargo facilities, two American Airlines aircraft maintenance hangars, and a former United States Postal Service building located at the western end of PHL. On July 2, 2015, PHL purchased an adjacent property to PHL known as International Plaza, which has two fully leased buildings with approximately 500,000 square feet of rentable space on a 27-acre tract of land. More recently PHL acquired four additional parcels for future PHL expansion. These include A: 2-acre parcel (8436 Enterprise Ave.), which consists of a one story office and warehouse building, totaling 30,078 square feet, as well as an exterior yard and surface parking lots; B: two segments of a public roadway adjacent to the Airport (Hog Island Road) totaling approximately 8.5 acres and a leasing of three segments totaling approximately 21 acres for 50 years, with an option to purchase after 20 years; C: a 3.4-acre parcel (4848 Island Avenue) adjacent to the Airport consisting of a one story office and warehouse building, totaling nearly 40,750 square feet, as well as a surface parking lot; and D: a vacant lot of 1.1 acres in Tinicum Township (Parcel 8A) at Tinicum Island Road (rear) and bounded by Philadelphia International Airport to the south, east and west sides. These properties were acquired for future PHL expansion.

The outside terminal area consists of a 15-story, 419-room hotel (414 rooms and 5 suites), seven rental car facilities, a 150-vehicle cell-phone lot and two employee parking lots with a total of 4,200 spaces. This area also includes five parking garages and surface lots consisting of a total of 18,940 vehicle spaces, operated by the Philadelphia Parking Authority.

*Northeast Philadelphia Airport (PNE)*

PNE is located on approximately 1,126 acres situated within the City limits, ten miles northeast of Center City Philadelphia. PNE serves as a reliever airport for PHL and provides for general aviation, air taxi, corporate, and occasional military use. PNE currently has no scheduled commercial service. There are presently 85 T-hangars, nine corporate hangars, and six open hangars for general aviation activities. There are approximately 175 general aviation aircraft based at PNE.

*Capital Development*

In the last ten years, the Airport has constructed more than $1.3 billion of capital improvements, including expansion and renovation of existing terminals, and airfield improvement projects, including a runway extension. The Airport's capital projects are included in the long-range Capacity Enhancement Program (CEP) and a near-term, on-going Capital Improvement Program (CIP). The CEP is a set of projects being pursued to improve efficiency, modernize airport facilities and provide additional capacity for future growth. It is a multi-year endeavor with multiple phases, and the timing for each development will be closely coordinated with the airlines and other stakeholders in order to maintain operational efficiency during construction. Approved CEP projects include a runway extension, taxiway improvements and the consolidated rental car facility. The Airport is working with its airline partners to review the sequencing and prioritization of the remaining elements within the CEP, which include expanding and reconfiguring the existing terminal complex; a new runway; an additional runway extension; further taxiway improvements; relocating several on and off-airport facilities to facilitate airfield improvements; cargo facility development; and parking and roadway improvements.

The CIP focuses on the near-term capital facility needs. CIP projects are developed to complement the framework of the CEP and the Airport's ultimate development. Major CIP projects include completion of Terminals D/E checked baggage inspection system; a new deicing facility; and on-going rehabilitation and replacement projects.

*Use and Lease Agreement*

In June 2015, the City Council of Philadelphia approved a five-year Airport-Airline Use and Lease Agreement (Airline Agreement) between PHL and the airlines. The Airline Agreement began July 1, 2015, and includes options for two one-year extensions.

PHL will continue to study, plan, and modularly execute the mission to ensure its full potential benefit to PHL and its stakeholders. Table 16 provides the total project amounts approved since 2007.

**Table 16**
**Ongoing Capital Projects Approved Since 2007**

| **Capital Projects** | **Current Project Amount (millions $)** |
|---|---|
| Capacity Enhancement Program (CEP)(1) | $1,125.90 |
| 2007-2015 Capital Improvement Program (CIP)(2) | $309.92 |
| 2016 Capital Improvement Program (CIP)(3) | $173.25 |
| 2016 Majority in Interest (MII) approved Projects(4) | $289.24 |

Source: City of Philadelphia, Division of Aviation

(1) Includes redevelopment of existing terminals; relocations of on-airport and off-airport facilities; environmental commitment start-up; Runway 9R-27L (future 9C-27C) extension and associated eastside taxiway work; stage 1 airfield site work and fuel line work; automated people mover (design); and ground transportation center.

(2) Includes repair, rehabilitation and upgrade programs for roofs, restrooms, windows, passenger loading bridges, mechanical and electrical systems, and security and access control systems; airfield civil improvements; and landside infrastructure improvements.

(3) Includes airfield re-pavement, emergency operations center, repair & rehabilitation and upgrade programs for curb doors, roofs, loading bridges, air handling units, HVAC and fire protection systems; emergency operations center; and LED conversion program.

(4) Includes land acquisitions, airfield taxiway reconstruction, purchases of Aircraft Rescue and Fire Fighting (ARFF) Vehicle and central deicing facility reconstruction, Arrivals road security bollards, Air Traffic Control Tower.

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*PHL Passenger and Other Traffic Activity*

In FY 2016, domestic enplaned passenger traffic grew as PHL's low-cost carriers, specifically Frontier Airlines and Spirit Airlines, began serving several new destination cities. JetBlue Airways also added twice daily service to Fort Lauderdale, FL during the course of FY 2016. This growth was offset by slight reductions in outbound international traffic, which was mainly attributable to American Airlines discontinuing year-round service to Tel Aviv, Israel in early January 2016 and seasonal service to Edinburgh, Scotland, which did not return in May 2015. Additionally, American temporarily suspended service to Brussels, Belgium in March 2016 after a series of coordinated bombings in that city, two of which occurred at Brussels Airport. American later discontinued the Brussels service across their entire network.

PHL experienced a decline in aircraft operations while also experiencing a slight increase in landed weight in FY 2016 due mainly to changes in aircraft fleet mix instituted by PHL's mainline carriers as they move to eliminate many of the regional aircraft from their respective route networks.

**Enplanements and Operations Activity at PHL**

| | Fiscal Year 2016 | Fiscal Year 2015 | Percentage Increase (Decrease) |
|---|---|---|---|
| Domestic Enplanements (Outbound passengers): | 13,484,253 | 13,072,574 | 3.1% |
| International Enplanements (Outbound passengers): | 2,199,305 | 2,240,164 | (1.8)% |
| Total Enplanements (Outbound passengers): | 15,683,558 | 15,312,738 | 2.4% |
| Operations (Takeoffs & landings): | 407,968 | 414,121 | (1.5)% |
| Landed Weight (1,000-pound units): | 20,821,203 | 20,772,632 | 0.2% |

**Port of Philadelphia**

The Port of Philadelphia (the "Port") is located on the Delaware River within the City limits. Philadelphia's Port facilities are serviced by two Class I railroads (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 Interstate 95 and Interstate 76. Over 1,600 local general freight trucking companies operate in the MSA, according to Hoover's Inc.

The Philadelphia Regional Port Authority (the "PRPA") reported approximately 6,262,648 metric tons of cargo moved through the Port in 2016, the second year of more than 6 million tons of cargo in a single calendar year, representing a 2.7% increase over 2015. The Port 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 imports. In December 2015, the PRPA secured a new shipping service that will link directly with burgeoning port operations on the Gulf of Mexico at Veracruz and Altamira. This service will target commodities including goods such as avocados, lemons, tomatoes and commercial cargo.

The PRPA is working to increase the Port's competitiveness by increasing capacity by deepening the main channel of the Delaware River from 40 to 45 feet which scheduled to be completed in late 2017/early 2018. Most recently in November, the Governor announced $300 million in Commonwealth funding to significantly expand the Port's facilities and double its capacity by 2020. Improvements will double container and auto capacity at the Port and increase the Port's ability to handle wood pulp, a food grade commodity.

## KEY CITY-RELATED SERVICES AND BUSINESSES

### 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 Department"). The water and wastewater systems are referred to herein individually as the "Water System" and "Wastewater System," respectively.

The Water System's service area includes the City of Philadelphia and has one wholesale water contract. Based on the 2015 U.S. Census Bureau estimate, the Water System served approximately 1,567,442 individuals.

As of June 30, 2016, the Water System served approximately 480,000 active retail customer accounts using approximately 3,100 miles of mains and approximately 25,000 fire hydrants. The City obtains approximately 59% of its water from the Delaware River and the balance from the Schuylkill River. The City is authorized by the Pennsylvania Department of Environmental Protection (the "PaDEP") to withdraw up to 423 million gallons per day ("MGD") from the Delaware River and up to 258 MGD from the Schuylkill River. On September 27, 2016, the PaDEP issued the Water Department a new water allocation permit, which expires on September 27, 2041. Under the new permit, the amount the City is authorized to withdraw from each river has not changed. The Water Department will begin discussions with the Delaware River Basin Commission to ratify the new permit.

Water treatment is provided by the Samuel S. Baxter Water Treatment Plant on the Delaware River and by the Belmont and Queen Lane Water Treatment Plants on the Schuylkill River. The combined rated treatment capacity of these plants is 546 MGD. The combined maximum source water withdraw capacity from the two rivers that supply these plants is 680 MGD. The excess source water capacity enables higher than normal withdrawal on either river should conditions limit the withdrawal from one river. The storage capacity for treated and untreated water in the combined plant and distribution system totals 1,065.5 million gallons ("MG"). In Fiscal Year 2016, the Water System distributed 81,687 MG of water at an average daily rate of 223.8 MGD. In Fiscal Year 2016, the maximum water production experienced by the Water System in one day was 258.2 MG.

The Wastewater System's service area is the City of Philadelphia and ten wholesale contracts with municipalities in the Philadelphia metropolitan area. Based on the 2015 U.S. Census Bureau estimate, the Wastewater System serves approximately 1,567,442 individuals that live in the City, in addition to those living in areas served by the wholesale contracts.

As of June 30, 2016, the Wastewater System served approximately 545,000 accounts, including approximately 50,000 stormwater-only accounts, and ten wholesale contracts with neighboring municipalities and authorities.

The Wastewater System consists of three water pollution control plants ("WPCPs"), 19 pumping stations, approximately 3,700 miles of sewers, and a privately managed centralized biosolids handling facility. It includes 1,850 miles of combined sewers, 760 miles of sanitary sewers, 740 miles of stormwater sewers, 13 miles of force mains (sanitary and storm) and 349 miles of appurtenant piping. The three WPCPs processed a combined average of 379 MGD of wastewater in Fiscal Year 2016, have a 522 MGD combined average daily design capacity and a peak capacity of 1,059 MGD.

**Solid Waste Disposal**

The City is responsible for collecting solid waste, including recycling, from residential households and some commercial establishments. On average, approximately 2,300 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, comprises 54 branches and an extensive online resource system.

**Streets and Sanitation**

The Philadelphia Streets Department (the "Streets Department") and the divisions within it are responsible for the City's large network of streets and roadways. The City's pavement condition is considered to be a "Fair" pavement condition. In order for the City to maintain its pavement in a state of good repair, local streets should be repaved once every 20 years and arterials should be repaved once every 10 years. This requires approximately 131 miles of paving every year. The pavement program has accumulated a backlog of approximately 1,100 miles since 1996. As a result of the new funding under Act 89, the Streets Department has funds to address long standing state of good repair needs without an additional allocation from the General Fund. During Fiscal Years 2014-2017, the Streets Department will invest in critical equipment replacements and begin to implement a strategy to address recurring state of good repair needs. This includes critical equipment replacement, street paving and pothole repair, and replacement of traffic control equipment.

The Streets 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**

Mayor Kenney continues the City's commitment to make Philadelphia the greenest and most sustainable city in America. To aid in achieving this goal, the 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 investing in and evaluating additional 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. The City introduced its new bicycle sharing system, Indego, in 2015, as further described in "TRANSPORTATION." Bicycle share programs have been successfully implemented in other cities worldwide.

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# APPENDIX C

## COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF PHILADELPHIA FOR THE YEAR ENDED JUNE 30, 2016

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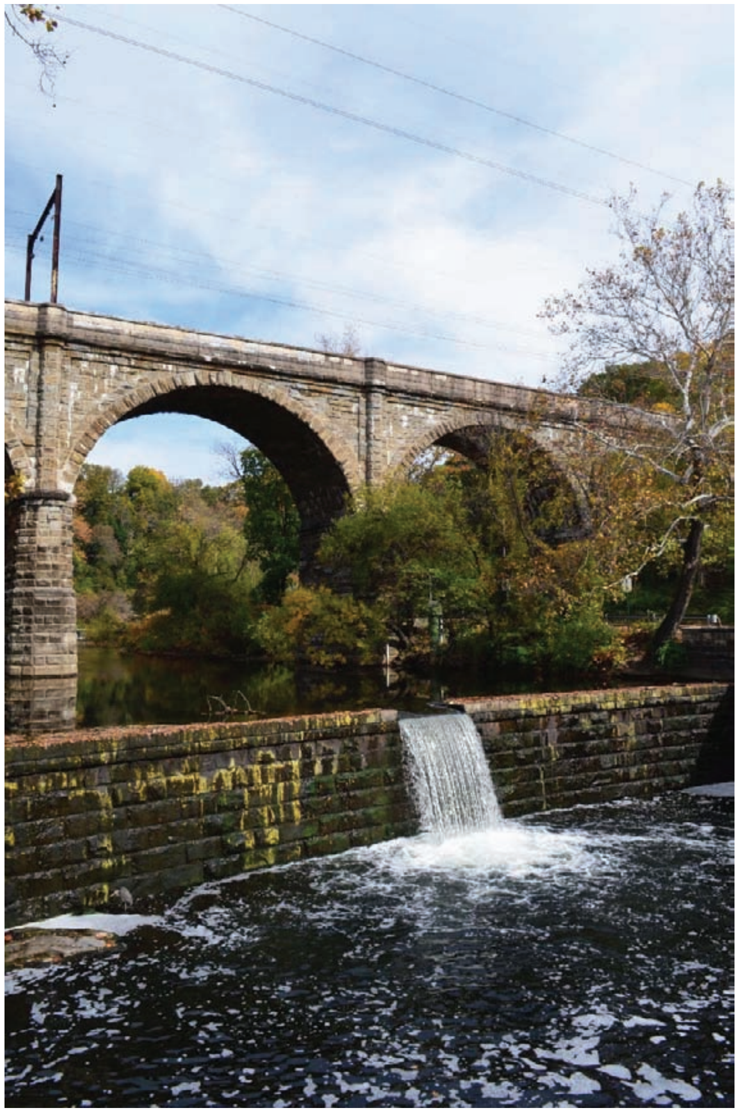
# City of Philadelphia

PENNSYLVANIA

Founded 1682



SEPTA bridge over Wissahickon Creek

# Comprehensive Annual Financial Report

## Fiscal Year Ended June 30, 2016

# City of Philadelphia
PENNSYLVANIA

# Comprehensive Annual Financial Report

## Fiscal Year Ended June 30, 2016

**James F. Kenney**
Mayor

**Prepared by:**

## Office of the Director of Finance

**Rob Dubow**
Director of Finance

**Josefine Arevalo**
Accounting Director

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*Office of the Director of Finance • 1330 MSB • Philadelphia, PA 19102*

# Table of Contents

## Introductory Section



## Financial Section

## Financial Section(Continued)

### Other Supplementary Information



## Statistical Section

**City of Philadelphia**
**OFFICE OF THE DIRECTOR OF FINANCE**
1401 John F. Kennedy Blvd.
Suite 1330, Municipal Services Bldg.
Philadelphia, Pennsylvania 19102-1693

**ROB DUBOW**
Director of Finance

February 24, 2017

To the Honorable Mayor, Members of City Council, and the People of the City of Philadelphia:

We are pleased to present the City of Philadelphia's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. The City's management assumes full responsibility for the completeness and accuracy of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. This report must be published by February 25th of every year to fulfill the continuing disclosure requirements related to the City's outstanding bonds and as outlined in SEC Rule 15c2-12.

The City Controller has issued an unqualified ("clean") opinion on the City's financial statements for the year ended June 30, 2016. The City Controller is an independently elected public official and is required by City Home Rule Charter (City Charter) section 6-401 to appoint a certified public accountant as the deputy in charge of auditing and complete an annual audit of all City accounts. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal 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 City 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.

Under the City Charter, there are two principal governmental entities in the City: (i) the City, which performs municipal and county functions; and (ii) the School District, which has boundaries coterminous with the City and responsibility for all public primary and secondary education. Under Article XII of the City Charter, the School District of Philadelphia operates as a separate and independent home rule school district. In December 2001, the Secretary of Education of the Commonwealth of Pennsylvania declared the School District financially distressed under Act 46, suspending the powers of the existing Board of Education and placing management of the District under control of a five-member School Reform Commission (SRC). Three SRC members, including the Chair, are appointed by the Governor, and the remaining two members are appointed by the Mayor. The SRC is responsible for the overall operation and management of the School District and educational programs, including all budgetary and financial matters.

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

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. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

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 and prisons. 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.

This report includes the financial statements of the primary government, as well as its component units. Component units are legally separate organizations in which the primary government is financially accountable for that legally separate organization. In addition, when a component unit functions as an integral part of the primary government, its financial data is blended with the primary government, and treated just as though it were funds of the primary government. Otherwise, the component unit is presented discretely (separately) from the primary government.

Blended component units included in this report are:

- Philadelphia Municipal Authority
- Pennsylvania Intergovernmental Cooperation Authority

Discretely presented component units included in this report are:

- Philadelphia Gas Works
- Philadelphia Redevelopment Authority
- Philadelphia Parking Authority
- School District of Philadelphia
- Community College of Philadelphia
- Community Behavioral Health, Inc.
- Delaware River Waterfront Corporation
- Philadelphia Authority for Industrial Development

The relationship between the City and its component units is explained further in the *Notes to the Financial Statements*.

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 ECONOMIC 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

The City benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries. As a hub for education and medicine, the City is home to a number of institutions of higher education, medical and research facilities, and hospitals, and these institutions improve the neighborhoods around them. The City also has a strong business and personal services economy with strengths in insurance, law, finance, and leisure and hospitality. Tourism is driven by the City's attractive historic district and array of cultural assets, including museums, theatres and entertainment venues, vast park system, and dynamic restaurant scene. The cost of living in the City is relatively moderate compared to other major metropolitan areas. In addition, the City offers the business community a large and diverse labor pool.

After decades of population loss, the City has experienced several years of consistent population growth and new investment in its neighborhoods, spurred in part by the relative affordability of housing options and the City's array of cultural amenities. Over the past decade, both personal income and per capita income have increased by 63.8% and 58.8%, respectively. The unemployment rate has returned to near pre-recession levels.

Despite this progress, significant challenges still remain. At 26%, the City's poverty rate is the highest of the 10 largest cities in the country, and personal income levels also remain relatively low in comparison to the region. These factors create an ongoing challenge to fund public services from a weaker tax base. While the City has benefited from recent population growth, the number of parent-aged adults (age 35-54) and school age children (age 5-19 years) has declined over the past five years, which is a trend that has negative implications for the tax base.

| Calendar Year | Population | Personal Income (in thousands) | Per Capita Personal Income | Unemployment Rate |
|---|---|---|---|---|
| 2015 | 1,567,442 | 77,903,831 | 49,701 | 6.9% |
| 2014 | 1,560,297 | 66,495,223 | 42,617 | 8.0% |
| 2013 | 1,553,165 | 65,473,002 | 42,155 | 10.0% |
| 2012 | 1,547,607 | 64,151,742 | 41,452 | 10.5% |
| 2011 | 1,538,567 | 62,632,520 | 40,708 | 10.8% |
| 2010 | 1,526,006 | 56,970,074 | 37,333 | 10.8% |
| 2009 | 1,547,297 | 54,061,223 | 34,939 | 9.6% |
| 2008 | 1,540,351 | 54,262,716 | 35,228 | 7.1% |
| 2007 | 1,530,031 | 50,672,227 | 33,118 | 6.0% |
| 2006 | 1,520,251 | 47,566,075 | 31,288 | 6.2% |

Over the last decade, the changes in the City's bond ratings have demonstrated a gradual improvement.
The City now has "A" category ratings for its General Obligation debt from all three major rating agencies: A2 (Moody's), A+ (Standard & Poor's), and A- (Fitch). Standard & Poor's (S&P) upgraded the City from "BBB" to "A-" in June 2013 and then gave the City a double upgrade to "A+" in December 2013. This was the first time that the City has been rated in the "A" category by all three rating agencies. In 2016, the outlook for the City's general obligation credit was changed from stable to negative by both Moody's Investor Service and Standard & Poor's. This means that both rating agencies during the next year will closely monitor the City's fiscal health for signs of improvements or deterioration and could decide to downgrade the City's bond rating or remove the negative outlook. The following table shows the City's 10-year history as of June 30th.

City of Philadelphia's General Obligation Bond Ratings

| Fiscal Year End | Moody's | Standard & Poor's | Fitch |
|---|---|---|---|
| 2016 | A2 | A+ | A- |
| 2015 | A2 | A+ | A- |
| 2014 | A2 | A+ | A- |
| 2013 | A2 | A- | A- |
| 2012 | A2 | BBB+ | A- |
| 2011 | A2 | BBB | A- |
| 2010 | A1 | BBB | A- |
| 2009 | Baa1 | BBB | BBB+ |
| 2008 | Baa1 | BBB | BBB+ |
| 2007 | Baa1 | BBB | BBB+ |

The consistent efforts of Philadelphia's economic development agencies and others have spurred significant economic changes throughout the City. Development in the Navy Yard has, over time, transitioned a formal naval property and active military base to a growing hub for business. The City's hotel room inventory has increased to help meet demand, and investments in commercial corridors across the City have helped existing businesses renovate, encouraged new businesses to move in, and reduced vacancy rates in those neighborhood commercial areas.

As of June 2016, Philadelphia had 48 major projects under construction concurrently, representing almost $7.3 billion in combined public and private investment. Most significantly, in summer 2014, Comcast Corporation broke ground on a 59-story, $1.2 billion office tower adjacent to its headquarters building in Center City. Residential and mixed use developments represent $3.2 billion in investment across 32 projects that are under construction across various neighborhoods throughout the City. Commercial developments represent over $1.9 billion invested across 11 projects, the majority of which are concentrated in Center City and the Navy Yard. Projects from higher education and health care institutions in the University City district represent over $1.9 billion in investment.

**Long-Term Financial Planning**

Despite these recent economic improvements, the City must budget carefully for the years ahead. Careful planning is needed to ensure the City's continued fiscal health and prepare for potential challenges, such as another economic downturn.

One of the most important measures of the City's financial health is its fund balance. Having a healthy fund balance gives the City financial flexibility, makes it better able to meet its cash flow needs, mitigate current and future financial risks and ensure predictability of future services. The City's fund balance has historically been well below levels recommended by government experts and the City's target of 6% to 8% of General Fund expenditures.

In fiscal 2016, the General Fund ended with a fund balance of $148.3 million, a $3.2 million decrease from fiscal 2015. The General Fund is projected to end fiscal 2017 with a fund balance of $106.1 million. Although greater than the balance projected in the City's most recent approved Five Year Plan for FY2017-2021, $106.1 million represents only 2.5% of the City's projected obligations. This is less than half of the low end of the City's target of 6% to 8%.

The table below illustrates the City's General Fund year-end balance for the past 5 years, and also projected forward 5 years as noted in the City's Quarterly City Managers Report (period ending Dec. 31 2016) and the City's most recent Five Year Plan (Five Year Strategic Plan for Fiscal Years 2017-2021).

General Fund
Year End Fund Balance (Legal Basis)

| Fiscal Year End | Fund Balance | Projected/ Actual |
|---|---|---|
| 2021 | 107,258 | Projected |
| 2020 | 73,565 | Projected |
| 2019 | 57,849 | Projected |
| 2018 | 47,064 | Projected |
| 2017 | 106,134 | Projected |
| 2016 | 148,315 | Actual |
| 2015 | 151,531 | Actual |
| 2014 | 202,135 | Actual |
| 2013 | 256,902 | Actual |
| 2012 | 146,754 | Actual |

**Relevant Financial Policies**

**PICA Act and Requirements:** PICA was created in 1991 by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the PICA Act) to provide financial assistance for the City of Philadelphia. Under this act and for as long as any PICA bonds are outstanding, the City is required to submit to PICA: (i) a five-year financial plan on an annual basis; and (ii) quarterly financial reports. The five-year financial plan includes projected revenues and expenditures of the principal operating funds of the City, beginning with the current fiscal year. Each five-year plan, which must be approved by PICA, is required to, among other things, eliminate any projected deficits, balance the fiscal year budgets and provide procedures to avoid fiscal emergencies. The quarterly reports must be submitted to PICA so that PICA may determine whether the City is in compliance with the then-current five-year plan.

**Fund Balance Target:** Recognizing the importance of maintaining adequate fund balances, the City developed a target of approximately 6% to 8% of expenditures for a target fund balance.

**Continued Wage and Business Tax Reductions:** The City's largest portion of tax revenue comes from the City's Wage and Earnings Tax. This tax is collected from all employees that work within the city limits but live elsewhere, as well as all residents regardless of work location. The Business Income and Receipts Tax (BIRT) is the third largest source of General Fund revenue and is based on both gross receipts (sales) and net income (profits). The Administration is committed to ensuring job and business growth in the City and to continuing gradual reductions in the City's wage and business tax rates to make Philadelphia more competitive regionally. The current FY2017-2021 Five Year Plan includes a continuation of wage and net income cuts resumed in fiscal year 2014 after being suspended during the Great Recession.

**Conducting Regular and Comprehensive Reassessments:** The Real Property Tax is levied on the taxable assessed value of all property in the City, and is the second largest source of tax revenue in the City. Philadelphia is unlike other cities and counties that rely more heavily on the property tax portion of their budget. Philadelphia's property tax is split between the City and the School District of Philadelphia. In fiscal year 2014, the City completed the Actual Value Initiative (AVI), which involved a comprehensive reassessment of all properties in the City – 579,000 parcels – to correct outdated and partial assessments. The intent of AVI is to ensure that properties are examined annually to ensure that values reflect the market. Since 2014, the Office of Property Assessment (OPA) has completed assessment projects on various property classes to maintain and improve the accuracy of assessments until another citywide reassessment is completed for fiscal 2019, after which full reassessments will be conducted annually.

**Improving the Health of the Pension Fund:** The City and its unions have taken multiple steps to improve the health of the pension fund, which is only 45% funded. Each year, the City has been contributing more than what is legally required, including dedicating sales tax revenue in addition to the minimum municipal obligation to improve the funding status of the plan.

The contract ratified in August 2016 by District Council 33, the City's largest municipal union, increases contributions for current employees so that those with higher annual salaries pay a higher contribution rate. These additional contributions will increase the assets of the pension fund over time. The agreement with District Council 33 also created a stacked hybrid plan that is mandatory for new hires. The stacked hybrid plan provides retirement security for the City's employees while also reducing the pension system's liabilities. Under the stacked hybrid plan included in the DC33 agreement, employees receive a traditional defined benefit plan for their first $50,000 of earnings and a 401k type plan for earnings above that amount.

Since fiscal 2008, the Pension Board has gradually lowered the pension system's assumed rate of return from 8.75% to 7.75% and has voted to make assumptions around mortality and other demographic factors more conservative. While fiscally prudent, these changes also lower the fund's actuarial funding percentage. The changes are partially responsible for recent increases in the City's minimum municipal obligation.

**Managing Heath Benefit Costs:** Health benefit program costs are one the largest and fastest growing items in the City's budget. In order to address the challenges these costs present, the City has made cost-saving changes in the City-administered health benefit programs for exempt and non-represented employees, and sought changes to its labor contracts in the area of health benefits. These changes include moving to self-insurance, increasing co-pays, and implementing wellness and disease management programs.

**Major Initiatives**

**Philadelphia Beverage Tax and Funded Programs:** In June 2016, City Council passed and the Mayor signed the Philadelphia Beverage Tax (PBT). The Beverage Tax taxes the distribution of sweetened drinks at 1.5 cents per ounce and became effective January 1, 2017. The Beverage Tax is expected to provide funding for pre-kindergarten, community schools, recreation centers and libraries. The City projects to collect approximately $42.2 million in fiscal 2017, and slightly over $92 million annually in fiscal years 2018 through 2021.

In September 2016, a lawsuit challenging the PBT was filed by the American Beverage Association and other co-plaintiffs in the Court of Common Pleas. This complaint was dismissed in its entirety by the Court of Common Pleas in December 2016. Following the decision, the plaintiffs appealed the ruling to the Commonwealth Court of Pennsylvania. The appeal is currently on an expedited scheduling track before the Commonwealth Court and is scheduled for oral argument during the first week of April 2017. Mayor Kenney remains committed to providing affordable, quality pre-K to up to 6,500 children over the next five years, investing over time in the renewal of civic assets like parks and libraries, and creating 25 community schools over the next four years. However, while the litigation is pending, the City cannot fully implement its plan for these three important initiatives. Until there is certainty that the Beverage Tax – and its accompanying revenue stream – will not be invalidated by any legal challenge, the City will proceed with limited expansion of these programs.

**Pension Reform:** The Administration will continue efforts to improve the health of the pension fund by applying the reforms negotiated with District Council 33 to all City employees. When the collective bargaining agreements for the police, fire, and District Council 47 employees expire on June 30, 2017, the Administration will work with the unions and City Council to expand the reforms included in the District Council 33 agreement to all City employees.

## 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, 2015. This was the thirty sixth 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**

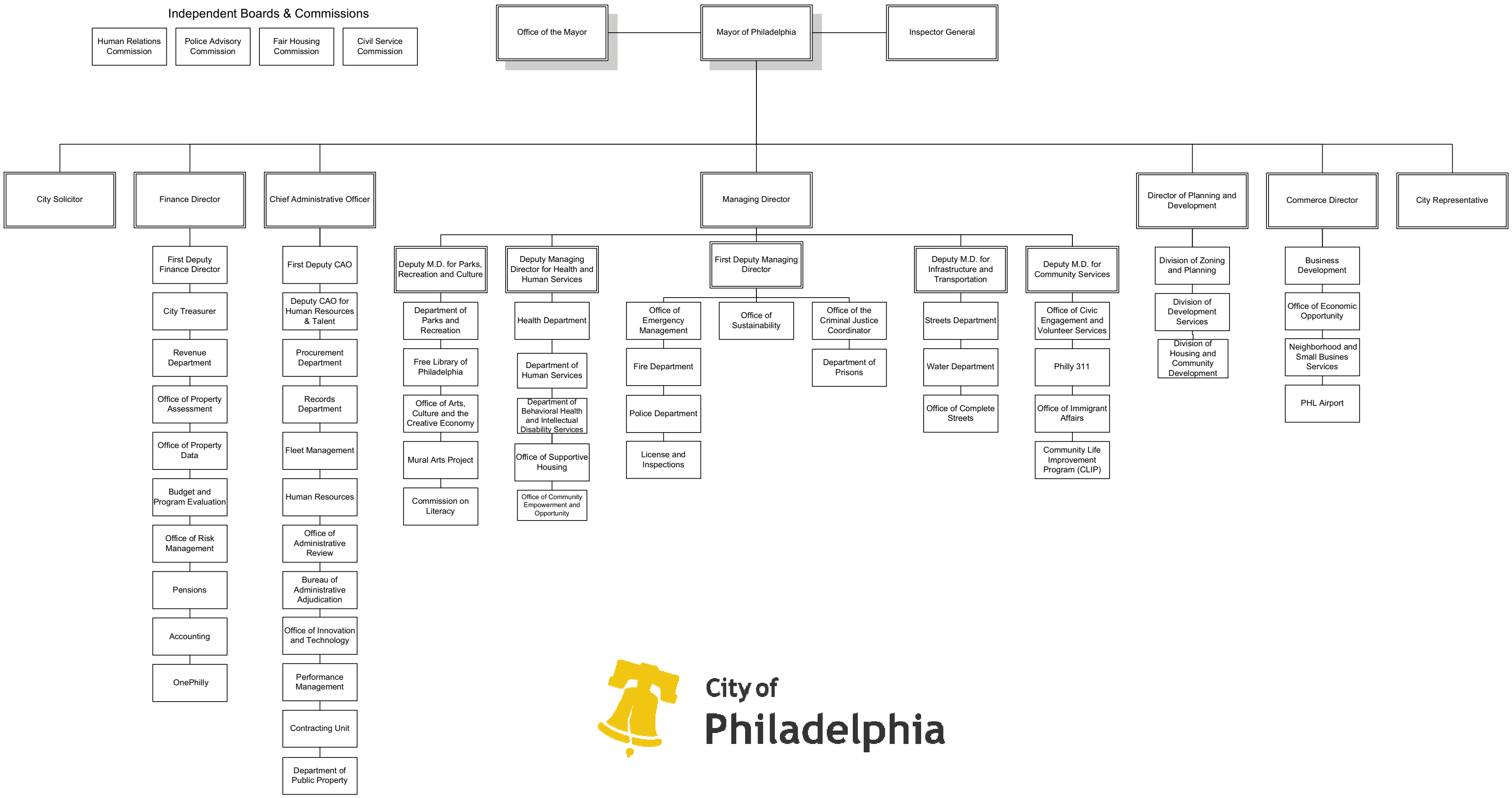
**Pennsylvania**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

# City of Philadelphia




City of Philadelphia

## Elected Officials

**Mayor ........................................................................... James F. Kenney**

**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 ........................................................................ Cherelle L. Parker**
**10th District ...................................................................... Brian J. O'Neill**
**At-Large ............................................................................ Blondell Reynolds Brown**
**At-Large ............................................................................ Derek S. Green**
**At-Large ............................................................................ William K. Greenlee**
**At-Large ............................................................................ David Oh**
**At-Large ............................................................................ Helen Gym**
**At-Large ............................................................................ Al Taubenberger**
**At-Large ............................................................................ Allan Domb**

**District Attorney ......................................................................... R. Seth Williams**

**City Controller ........................................................................... Alan Butkovitz**

**City Commissioners**
**Chairman ............................................................................ Anthony Clark**
**Commissioner..................................................................... Al Schmidt**
**Commissioner..................................................................... Lisa M. Deeley**

**Register of Wills......................................................................... Ronald R. Donatucci**

**Sheriff.......................................................................................... Jewell Williams**

**First Judicial District of Pennsylvania**
**President Judge, Court of Common Pleas ........................... Sheila Woods- Skipper**
**President Judge, Municipal Court ....................................... Marsha H. Neifield**

## Appointed Cabinet Members

| | |
|---|---|
| **Managing Director** | **Michael DiBerardinis** |
| **Finance Director** | **Rob Dubow** |
| **Chief Administrative Officer** | **Christine Derenick-Lopez** |
| **City Solicitor** | **Sozi Tulante** |
| **Director of Planning & Development** | **Anne Fadullon** |
| **Commerce Director** | **Harold Epps** |
| **Chief of Staff** | **Jane Slusser** |
| **Deputy Mayor for Intergovernmental Affairs** | **Deborah Mahler** |
| **Deputy Mayor for Labor Relations** | **Richard Lazer** |
| **Deputy Mayor for Policy & Legislation** | **James Engler** |
| **Chief Integrity Officer** | **Ellen Kaplan** |
| **Chief Education Officer** | **Otis Hackney** |
| **Chief Diversity & Inclusion Officer** | **Nolan Atkinson** |
| **Deputy Mayor for Public Engagement** | **Nina Ahmad** |
| **City Representative** | **Sheila Hess** |
| **Inspector General** | **Amy L. Kurland** |

# 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

CHRISTY BRADY
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, 2016, 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 of Philadelphia, 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 Parks and Recreation Departmental and Permanent Funds which collectively represent 30%, 28%, and 17% of the total assets, net position/fund balances, 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 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 reports 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, 2016, 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.

***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 15 through 29, and the required supplementary information other than management's discussion and analysis as listed in the table of contents 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 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.

*Other Supplementary Information*

Our audit for the year ended June 30, 2016 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, 2016, 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, 2016, 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 as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended June 30, 2016.

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, 2015 (not presented herein), and have issued our report thereon dated February 24, 2016, 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 2015 amounts included in the individual fund schedules of Budgetary Actual and Estimated Revenues and Obligations for the year ended June 30, 2015 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 2015 financial statements. The 2015 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 2015 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 2015 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, 2015.

*Other Information*

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.

Christy Brady

CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 24, 2017


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, 2016 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 liabilities and deferred inflows of the City of Philadelphia exceeded its assets and deferred outflows by $4,629.3 million. Its *unrestricted net position* showed a deficit of $8,183.8 million. This deficiency will have to be funded from resources generated in future years.

- The City's total June 30, 2016 year-end net position increased by $58.5 million from the prior year June 30, 2015 net position. The governmental activities of the City experienced a decrease of $60.7 million, while the business type activities had an increase of $119.2 million.

- For the current fiscal year, the City's governmental funds reported a combined ending fund balance of $415.2 million, a decrease of $65.0 million from last year. The *unassigned fund balance* of the governmental funds ended the fiscal year with a deficit of $327.8 million, a decrease of $107.6 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 $78.0 million, of which, $0.0 (zero) was *unassigned* which represents the residual amounts that have not been assigned to other funds. The *unassigned fund balance* was unchanged 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 $148.3 million, as compared to a $151.5 million surplus last year. The decrease of $3.2 million was due to an increase in expenditures that resulted in an operating deficit of $26.8 million offset by some cancelations of prior year obligations.

**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:

- <u>Government-wide financial statements</u> which provide both long-term and short-term information about the City's overall financial condition.
- <u>Fund financial statements</u> which provide a more detailed look at major individual portions, or funds, of the City.
- <u>Notes to the financial statements</u> which explain some of the information contained in the financial statements and provide more detailed data.
- <u>Other supplementary information</u> 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 positions 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:

1. ***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.

2. ***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 first two activities comprise the primary government of Philadelphia.

3. ***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.

1. ***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.

2. ***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.

3. ***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 positions and changes in fiduciary net positions. 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 liabilities & deferred inflows exceeded its assets & deferred outflows by $4,629.3 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, $2,278.9 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.

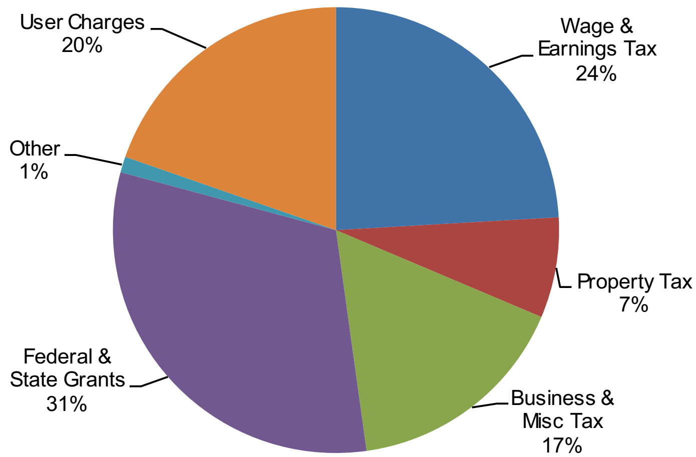
A portion of the City's net position, $1,275.6 million, is subject to external restrictions as to how they may be used. The remaining component of net position is unrestricted. Unrestricted net position ended the fiscal year with a deficit of $8,183.8 million. The governmental activities reported negative *unrestricted net position* of $7,904.5 million. The business type activities reported an unrestricted net position deficit of $279.3 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)*

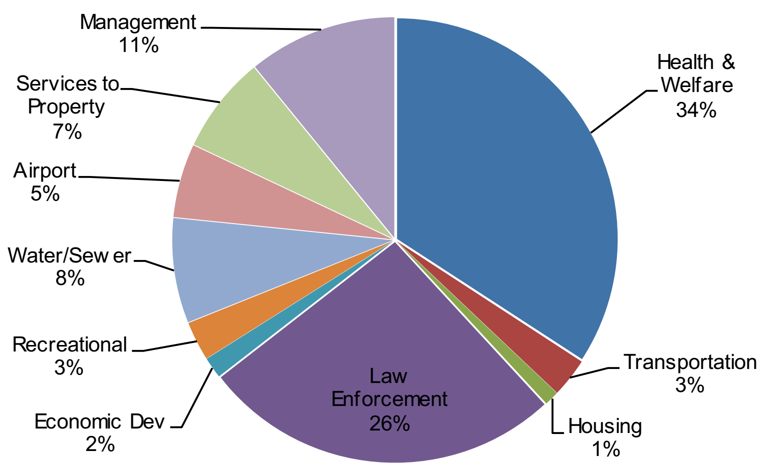
| | Governmental Activities | | % | Business-type Activities | | % | Total Primary Government | | % |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Current and other assets | 2,137.6 | 2,063.4 | 3.60% | 1,582.0 | 1,714.2 | -7.71% | 3,719.6 | 3,777.6 | -1.54% |
| Capital assets | 2,373.6 | 2,314.0 | 2.58% | 4,220.8 | 4,098.5 | 2.98% | 6,594.4 | 6,412.5 | 2.84% |
| **Total assets** | **4,511.2** | **4,377.4** | 3.06% | **5,802.8** | **5,812.7** | -0.17% | **10,314.0** | **10,190.1** | 1.22% |
| **Deferred Outflows** | 878.6 | 439.4 | 99.95% | 158.7 | 118.3 | 34.15% | 1,037.2 | 557.7 | 85.98% |
| Long-term liabilities | 4,600.2 | 4,612.9 | -0.28% | 3,182.9 | 3,386.3 | -6.01% | 7,783.1 | 7,999.2 | -2.70% |
| Other liabilities | 7,074.1 | 6,463.5 | 9.45% | 1,079.2 | 968.9 | 11.38% | 8,153.3 | 7,432.4 | 9.70% |
| **Total liabilities** | **11,674.3** | **11,076.4** | 5.40% | **4,262.1** | **4,355.2** | -2.14% | **15,936.4** | **15,431.6** | 3.27% |
| **Deferred Inflows** | 39.7 | 3.9 | 915.58% | 4.4 | - | - | 44.1 | 3.9 | 1027.81% |
| **Net Position:** | | | | | | | | | |
| Net Investment in capital assets | 955.2 | 1,040.8 | -8.22% | 1,323.7 | 1,088.1 | 21.65% | $2,278.9 | 2,128.9 | 7.05% |
| Restricted | 625.1 | 576.3 | 8.47% | 650.5 | 766.0 | -15.08% | $1,275.6 | 1,342.3 | -4.97% |
| Unrestricted | (7,904.5) | (7,880.6) | -0.30% | (279.3) | (278.4) | -0.32% | (8,183.8) | (8,159.0) | -0.30% |
| **Total Net Position** | **(6,324.2)** | **(6,263.5)** | -0.97% | **1,694.9** | **1,575.7** | 7.56% | **(4,629.3)** | **(4,687.8)** | 1.25% |

**Changes in net position.** The City's total revenues this year, $7,493.5 million, exceeded total costs of $7,413.0 million by $80.5 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 31%, and the remaining 21% 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 60% are related to the health, welfare and safety of the general public.



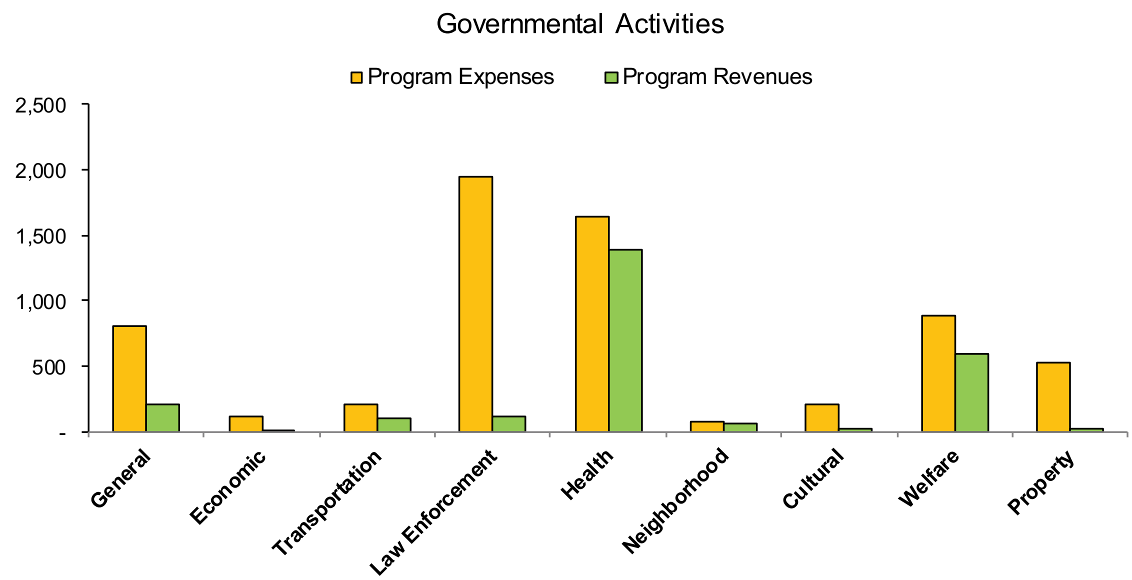

Total revenues increased by $259.1 million, total expenses increased by $512.7 million over last year. This resulted in the Change in Net Position, before prior period adjustments, being $253.6 million less than in the previous year. Net positions were increased by $106.1 million from Charges for Services, $79.7 million from Operating Grants and Contributions, $79.6 million for Wage and Earning Taxes, $119.2 million from Other Taxes, $0.3 million from Unrestricted Grants and Contributions, $8.1 million from Unrestricted Interest; and decreased by $132.8 million from Capital Grants and Contributions, and $1.1 million from Property Taxes.

Expense increased by $512.7 million with decreases of $0.8 million in Housing and Neighborhood Development, $8.0 million in Interest in Long Term Debt; and increases of $17.9 million in Economic Development, $14.3 million in Transportation, $178.6 million for Judiciary and Law Enforcement, $158.5 million in Conservation of Health, $5.8 million in Cultural & Recreational, $33.2 million in Improvement of the General Welfare, $25.7 million in Services to Taxpayer Property, $42.8 million in General Management, $18.8 million in Water and Waste Water and $25.9 million in Airport.



## Governmental Activities

The governmental activities of the City resulted in a $92.3 million decrease in net position before prior period adjustments. 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.

| | Program | | | Program | | | Net | | |
|---|---|---|---|---|---|---|---|---|---|
| *(millions of USD)* | Costs | | | Revenues | | | Cost | | |
| | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| General Welfare | $ 888.6 | $ 855.4 | 3.9% | $ 590.1 | $ 590.8 | -0.1% | $ 298.5 | $ 264.6 | 12.8% |
| Judiciary & Law Enforcement | 1,953.7 | 1,775.1 | 10.1% | 113.2 | 111.3 | 1.7% | 1,840.5 | 1,663.8 | 10.6% |
| Public Health | 1,645.4 | 1,486.9 | 10.7% | 1,392.5 | 1,276.0 | 9.1% | 252.9 | 210.9 | 19.9% |
| General Governmental | 806.3 | 771.5 | 4.5% | 213.1 | 220.2 | -3.2% | 593.2 | 551.3 | 7.6% |
| Services to Property | 527.7 | 501.9 | 5.1% | 20.3 | 31.1 | -34.7% | 507.4 | 470.8 | 7.8% |
| Housing, Economic & Cultural | 622.0 | 584.9 | 6.3% | 202.5 | 220.3 | -8.1% | 419.5 | 364.6 | 15.1% |
| | **$ 6,443.7** | **$ 5,975.7** | 7.8% | **$ 2,531.7** | **$ 2,449.7** | 3.3% | **$ 3,912.0** | **$ 3,526.0** | 10.9% |

The cost of all governmental activities this year was $6,443.7 million; the amount that taxpayers paid for these programs through tax payments was $3,606.1 million. The federal and state governments and other charitable organizations subsidized certain programs with grants and contributions in the amount of $2,152.6 million while those who benefited from the programs paid $379.2 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 $245.1 million. The difference of $60.7 million represents a reduction in net positions.

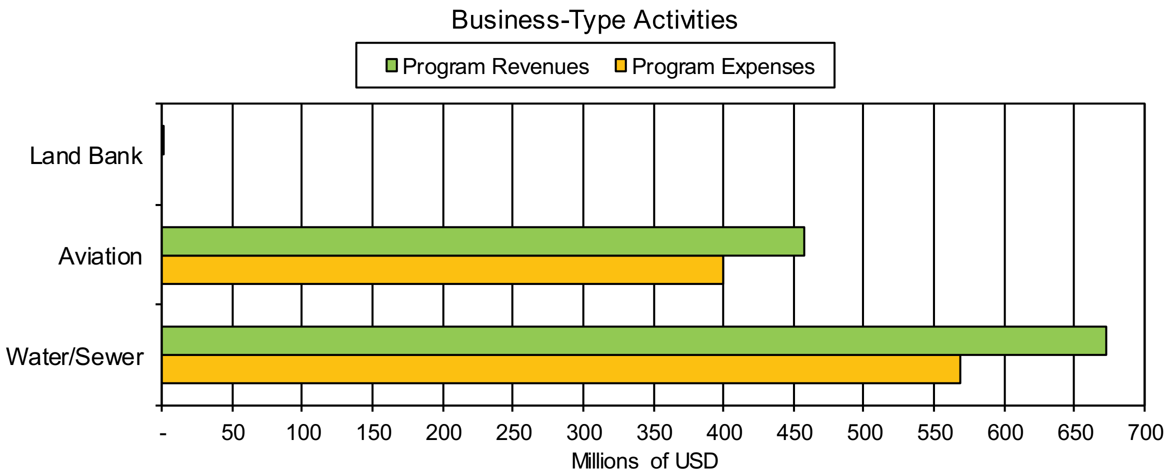
The following table shows a more detailed breakdown of program costs and related revenues for both the governmental and business-type activities of the City:

***City of Philadelphia-Net Position***

| *(millions of USD)* | Governmental Activities | | Business-type Activities | | Total | | % |
|---|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** | **Change** |
| **Revenues:** | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | $ 379.2 | $ 378.4 | $ 1,104.1 | $ 998.8 | $ 1,483.3 | $ 1,377.2 | 7.7% |
| Operating grants and contributions | 2,090.9 | 2,011.2 | 0.9 | 0.9 | 2,091.8 | 2,012.1 | 4.0% |
| Capital grants and contributions | 61.8 | 60.1 | 26.8 | 161.3 | 88.6 | 221.4 | -60.0% |
| General revenues: | | | | | | | |
| Wage and earnings taxes | 1,816.8 | 1,737.2 | - | - | 1,816.8 | 1,737.2 | 4.6% |
| Property taxes | 550.2 | 551.3 | - | - | 550.2 | 551.3 | -0.2% |
| Other taxes | 1,239.2 | 1,120.0 | - | - | 1,239.2 | 1,120.0 | 10.6% |
| Unrestricted grants and contributions | 185.4 | 185.1 | 1.9 | 1.9 | 187.3 | 187.0 | 0.2% |
| Unrestricted Interest | 28.0 | 24.1 | 8.3 | 4.1 | 36.3 | 28.2 | 28.7% |
| **Total revenues** | **6,351.5** | **6,067.4** | **1,142.0** | **1,167.0** | **7,493.5** | **7,234.4** | 3.6% |
| **Expenses:** | | | | | | | |
| Economic development | 115.3 | 97.4 | - | - | 115.3 | 97.4 | 18.4% |
| Transportation | 212.9 | 198.6 | - | - | 212.9 | 198.6 | 7.2% |
| Judiciary & law enforcement | 1,953.7 | 1,775.1 | - | - | 1,953.7 | 1,775.1 | 10.1% |
| Conservation of health | 1,645.4 | 1,486.9 | - | - | 1,645.4 | 1,486.9 | 10.7% |
| Housing & neighborhood development | 80.1 | 80.9 | - | - | 80.1 | 80.9 | -1.0% |
| Cultural & recreational | 213.8 | 208.0 | - | - | 213.8 | 208.0 | 2.8% |
| Improvement of the general welfare | 888.6 | 855.4 | - | - | 888.6 | 855.4 | 3.9% |
| Services to taxpayer property | 527.7 | 502.0 | - | - | 527.7 | 502.0 | 5.1% |
| General management | 648.1 | 605.3 | - | - | 648.1 | 605.3 | 7.1% |
| Interest on long term debt | 158.2 | 166.2 | - | - | 158.2 | 166.2 | -4.8% |
| Water & waste water | - | - | 569.0 | 550.2 | 569.0 | 550.2 | 3.4% |
| Airport | - | - | 400.2 | 374.3 | 400.2 | 374.3 | 6.9% |
| Industrial land bank | - | - | - | - | - | - | 0.0% |
| **Total expenses** | **6,443.8** | **5,975.8** | **969.2** | **924.5** | **7,413.0** | **6,900.3** | 7.4% |
| Increase (dec.) in net position before transfers & special items | (92.3) | 91.6 | 172.8 | 242.5 | 80.5 | 334.1 | |
| Transfers | 31.6 | 30.3 | (31.6) | (30.3) | - | - | |
| **Increase (dec) in Net Position** | **(60.7)** | **121.9** | **141.2** | **212.2** | **80.5** | **334.1** | |
| Net Position - Beginning | (6,263.5) | (1,964.6) | 1,575.7 | 1,893.6 | (4,687.8) | (71.0) | 6502.5% |
| Adjustment | - | (4,420.8) | (22.0) | (530.1) | (22.0) | (4,950.9) | |
| **Net Position - End** | **$ (6,324.2)** | **$ (6,263.5)** | **$ 1,694.9** | **$ 1,575.7** | **$ (4,629.3)** | **$ (4,687.8)** | -1.2% |

## Business-type Activities

Business-type activities resulted in a $141.3 million increase in net position before prior period adjustments. This increase was comprised of an increase in net position for water/wastewater of $77.6 million, an increase to aviation of $62.0 million, and an increase for industrial & commercial development operations of $1.7 million.




**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.

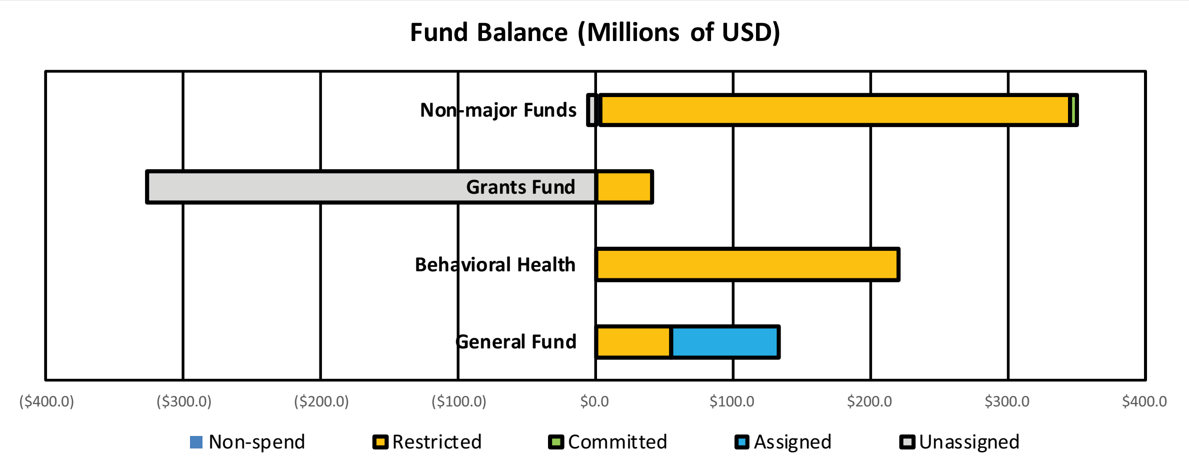
At the end of the fiscal year the City's governmental funds reported a *combined fund balance* of $415.2 million, a decrease of $65.0 million over last year. Of the total fund balance, $3.1 million represents *non-spendable fund balance* for amounts that cannot be spent.

In addition, $657.3 million represents *restricted fund balance* due to externally imposed constraints by outside parties, or law, for the following proposes:

| | | |
|---|---|---|
| Economic Development | $ | 12.3 |
| Public Safety Emergency Phone System | | 40.8 |
| Streets & Highways | | 37.1 |
| Housing and Neighborhood Development | | 20.8 |
| Health Services | | 11.2 |
| Behavioral Health | | 220.1 |
| Parks & Recreation | | 0.8 |
| Libraries & Museums | | 3.0 |
| Intergovernmental Financing | | 25.5 |
| Central Library Project | | 1.7 |
| Stadium Financing | | 6.9 |
| Cultural & Commercial Corridor Project | | 7.4 |
| Pension Obligation Bonds | | 44.8 |
| Debt Service Reserve | | 81.6 |
| Capital Projects | | 133.1 |
| Trust Purposes | | 10.2 |
| Total Restricted Fund Balance | $ | 657.3 |

The fund balance is further broken down as to *committed fund balance* for Prisons $2.9 million and Parks and Recreation $1.7 million. The difference between the non-spendable, restricted, committed, assigned and combined fund balance is a deficit of $327.8 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 $78.0 million and *unassigned fund balance* of $0.0 (zero) at the end of the fiscal year.




Overall, the total fund balance of the General Fund decreased by $23.0 million during the current fiscal year, compared to a decrease of $56.2 million in the prior fiscal year. Some of the key factors contributing to this change are:

Revenues:
- Total current year revenues ($3,588.9 million) increased between fiscal years, with a $198.8 million (5.9%) increase from the prior fiscal year ($3,390.1 million).
- This increase was primarily due to $196.8 million increase in tax revenue.
- All other revenues remained relatively flat compared to the prior fiscal year.

Expenditures and Other Financing Sources (Uses):
- Total current year Expenditures and Other Financing Sources (Uses) ($3,611.9 million) increased between fiscal years, with a $165.6 million (4.8%) increase from prior fiscal year ($3,446.3 million)
- This increase was primarily due to a $91.5 million increase in expenditures related to Judiciary and Law Enforcement (Police, Prisons and the Courts).

The Health Choices Behavioral Health fund ended the fiscal year with a total fund balance of $220.1 million, the entire amount is reserved for a contractually required equity reserve and reinvestment initiatives. The total fund balance increased during the fiscal year by $20.5 million.

The Grants Revenue fund has a total fund balance deficit of $281.7 million which is comprised of a positive restricted fund balance of $40.8 million for emergency telephone system programs and a deficit unassigned fund balance of $322.5 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 $133.4 million during the current fiscal year.

***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 $141.3 million during the current fiscal year. This increase is attributable to the water/wastewater system which had an increases of $77.6 million, airport operations which experienced an increase of $62.0 million, and industrial & commercial land bank operations which also experienced an increase of $1.7 million.

The proprietary funds reported an *unrestricted net position* deficit of $279.3 million. The table below indicates the *unrestricted net position* for the water and waste water operations, the airport, and the industrial and commercial land bank operations for the current and previous fiscal years.

| | Unrestricted Net Position (deficit) | | |
|---|---|---|---|
| | 2016 | 2015 | Change |
| Water and Waste Water | ($258.2) | ($235.9) | ($22.3) |
| Aviation | ($84.7) | ($104.3) | $19.6 |
| Land Bank | $63.6 | $61.9 | $1.7 |
| | ($279.3) | ($278.3) | ($1.0) |

The $22.3 million change in the Water and Waste Water *unrestricted net position* is primarily due to a prior period adjustment of $22.0 million which related to items that were capitalized and should have been expensed in prior years.

**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) |
| 2016 | $ 148.3 | $ (3.2) |
| 2015 | 151.5 | (50.6) |
| 2014 | 202.1 | (54.8) |
| 2013 | 256.9 | 110.1 |
| 2012 | 146.8 | 146.7 |

The general fund's budgetary fund balance surplus of $148.3 million differs from the general fund's fund financial statement unassigned fund balance of $0.0 (zero) by $148.3 million, which represents the following:

1. The unearned portion of the business income & receipts tax of $169.5 million. Business income & receipts tax (BIRT prepays) is received prior to being earned but have no effect on budgeted cash receipts.
2. Since governments cannot report a deficit in unassigned fund balance (GASB No. 54, paragraph 15), the resulting $21.2 million deficit is reclassified to assigned fund balance.

The charts below illustrate:

A. The reconciliation of Total Fund Balance - Budget Basis versus GAAP (Modified Accrual)
B. The components of Fund Balance for GAAP (Modified Accrual) basis
C. The reconciliation of Unassigned Fund Balance – Budget Basis versus GAAP (Modified Accrual)

(millions of USD)

| A. Budget to GAAP Basis Reconcilation | 6/30/2016 | 6/30/2015 | 6/30/2014 |
|---|---|---|---|
| Budget Basis Fund Balance | $ 148.3 | $ 151.5 | $ 202.1 |
| 1. Less: BIRT six (6) months pre-pays | (169.5) | (178.5) | (179.1) |
| 2. Add: Encumbrances | 99.2 | 108.9 | 103.1 |
| 3. Add: Reserves | 54.5 | 73.6 | 85.6 |
| Modified Accrual Basis Fund Balance | $ 132.5 | $ 155.5 | $ 211.7 |

| B. Modified Accrual Basis Fund Balance | 6/30/2016 | 6/30/2015 | 6/30/2014 |
|---|---|---|---|
| Restricted | $ 54.5 | $ 73.6 | $ 85.6 |
| Assigned | | | |
| Encumbrances | 99.2 | 108.9 | 103.1 |
| Reclassification of Unassigned | (21.2) | (27.0) | - |
| Assigned | 78.0 | 81.9 | 103.1 |
| Unassigned | - | - | 23.0 |
| Modified Accrual Basis Fund Balance | $ 132.5 | $ 155.5 | $ 211.7 |

| C. Budget to GAAP Basis Reconcilation | 6/30/2016 | 6/30/2015 | 6/30/2014 |
|---|---|---|---|
| Budget Basis Fund Balance | $ 148.3 | $ 151.5 | $ 202.1 |
| 1. Less: BIRT six (6) months pre-pays | (169.5) | (178.5) | (179.1) |
| 2. Less: Reclass to Assigned Fund Balance | 21.2 | 27.0 | - |
| Unassigned Fund Balance | $ - | $ - | $ 23.0 |

Differences between the original budget and the final amended budget resulted primarily from decreases in revenue estimates and increases to appropriations. Total appropriations increased by $75.9 million; from an original budget of $3,998.1 million to a final amended budget of $4,074.0 million. The largest increases were required to support the following activities:

- $22.2 million for Police operations
- $20.1 million for Street maintenance and repair
- $27.1 million for Fire operations

### 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 $6.6 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. The table below shows a breakdown of the City's Capital Improvements over the past four fiscal years.

*(millions of USD)*

| | FY 2016 | FY 2015 | FY 2014 | FY 2013 |
|---|---|---|---|---|
| Airport Terminal & Airfield Improvements | $ 161.1 | $ 196.2 | $ 74.4 | $ 149.6 |
| Water & Wastewater Improvements | 176.0 | 175.0 | 141.3 | 142.5 |
| Streets, Highways & Bridges Improvements | 77.9 | 63.6 | 46.8 | 63.9 |
| Transit System Improvements | 10.6 | 1.3 | 2.2 | 3.9 |
| Parks, Playgrounds, Museums & Recreational Facilities | 37.9 | 33.6 | 18.6 | 27.1 |
| Libraries Improvements | 1.6 | 3.3 | 0.2 | 0.7 |
| Police & Fire Facilities | 7.7 | 18.9 | 5.9 | 18.5 |
| City Hall & Municipal Buildings Improvements | 2.7 | 5.9 | 6.2 | 3.3 |
| Computers, Servers, Software & IT Infrastructure | 11.4 | 19.4 | 16.5 | 9.6 |
| Economic Development | 11.2 | 12.7 | 11.8 | 4.7 |
| Other and Non-Enterprise Vehicles | 32.3 | 10.7 | 10.9 | 11.2 |
| | $ 530.4 | $ 540.6 | $ 334.8 | $ 435.0 |

The following table shows the capital assets by category.

***City of Philadelphia's Capital Assets-Net of Depreciation***

*(millions of USD)*

| | Governmental activities | | | Business-type activities | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | Inc/(Dec) | 2016 | 2015 | Inc/(Dec) | 2016 | 2015 | Inc/(Dec) |
| Land | $ 829 | $ 818 | $ 11 | $ 156 | $ 153 | $ 3 | $ 985 | $ 971 | $ 14 |
| Fine Arts | 1 | 1 | - | - | - | - | 1 | 1 | - |
| Buildings | 708 | 735 | (27) | 1,552 | 1,399 | 153 | 2,260 | 2,134 | 126 |
| Improvements other than buildings | 95 | 113 | (18) | 173 | 168 | 5 | 268 | 281 | (13) |
| Machinery & equipment | 124 | 92 | 32 | 26 | 25 | 1 | 150 | 117 | 33 |
| Infrastructure | 496 | 444 | 52 | 1,581 | 1,492 | 90 | 2,077 | 1,936 | 141 |
| Construction in progress | 43 | 36 | 7 | 728 | 856 | (128) | 771 | 892 | (121) |
| Transit | 59 | 63 | (4) | - | - | - | 59 | 63 | (4) |
| Intangible Assets | 19 | 12 | 7 | 5 | 6 | (1) | 24 | 18 | 6 |
| **Total** | **$ 2,374** | **$ 2,314** | **$ 60** | **$ 4,221** | **$ 4,099** | **$ 122** | **$ 6,594** | **$ 6,413** | **$ 182** |

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 $7.8 billion in long term debt outstanding. Of this amount, $5.2 billion represents bonds outstanding (comprised of $2.1 billion of debt backed by the full faith and credit of the City, and $3.1 billion of debt secured solely by specific revenue sources) while $2.5 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***

*(millions of USD)*

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Bonds Outstanding:** | | | | | | |
| General obligation bonds | 2,113.4 | 2,027.7 | - | - | 2,113.4 | 2,027.7 |
| Revenue bonds | - | - | 3,128.0 | 3,336.1 | 3,128.0 | 3,336.1 |
| **Total Bonds Outstanding** | **2,113.4** | **2,027.7** | **3,128.0** | **3,336.1** | **5,241.4** | **5,363.8** |
| **Other Long Term Obligations:** | | | | | | |
| Service agreements | 1,919.7 | 2,038.8 | - | - | 1,919.7 | 2,038.8 |
| Employee related obligations | 488.0 | 459.5 | 46.4 | 45.2 | 534.4 | 504.7 |
| Indemnities | 70.4 | 74.0 | 8.5 | 4.7 | 78.9 | 78.7 |
| Leases | 8.7 | 12.9 | - | - | 8.7 | 12.9 |
| Other | - | - | - | 0.3 | - | 0.3 |
| **Total Other Long Term Obligations** | **2,486.8** | **2,585.2** | **54.9** | **50.2** | **2,541.7** | **2,635.4** |
| **Total Long Term Debt Outstanding** | **4,600.2** | **4,612.9** | **3,182.9** | **3,386.3** | **7,783.1** | **7,999.2** |

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 $175.0 million in Tax and Revenue Anticipation Notes by June 2016 plus interest. In accordance with statute there are no temporary loans outstanding at year end.

- In July 2015, the City issued $138.8 million of General Obligation Refunding Bonds Series 2015A. The total proceeds were $157.0 million (including a premium of $18.2 million). The proceeds of the sale were used to refund the Series 2006, 2008B, and 2011 bonds.

- In September 2015, the City issued $191.6 million of General Obligation Bonds Series 2015B. The 2015B bonds were issued for the purpose of funding the City's capital projects and paying the costs relating to the issuance of the 2015B bonds.

- In September 2015, the City issued $97.8 million of Airport Revenue Bonds Series 2015A Bonds to refund all of the outstanding Series 2005A Bonds in the amount of $105.9 million and to pay the costs of issuing the Series 2015A Bonds.

- In February 2016, PAID issued $95.4 million of City Service Agreement Revenue Refunding Bonds Series 2016A and 2016B. The total proceeds of the 2016A bonds were $104.6 million (which includes a premium of $15.4 million). The 2016A Bonds were issued to partially refund $99.5 million of the Series 2006A Bonds and to pay the costs of issuing the 2016A Bonds. The total proceeds of the 2016B bonds were $6.8 million (which includes a premium of $0.6 million). The 2016B Bonds were issued to refund $6.7 million of the Series 2005 Bonds and to pay the costs of issuing the 2016B 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 2016, PENNVEST draw-downs totaled $5.8 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 is 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 | Standard & Poor's | Fitch |
|---|---|---|---|
| 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 13.50% of the average assessed valuations of properties over the past ten years. As of June 30, 2016 the legal debt limit was $5,454.0 million. There is $1,841.4 million of outstanding tax supported debt leaving a legal debt margin of $3,612.6 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 2017 fiscal year, as outlined in the City's most recent Five Year Financial and Strategic Plan for Fiscal Years 2017-2021.

- *Fund Balance:* In fiscal 2016, the General Fund ended with a fund balance of $148.3 million.
- *Revenue Projections for FY2017.* Wage and Earnings Tax revenue is projected to grow 3.42%, Sales Tax revenue is projected to grow by 4.34%, Real Property revenue is projected to grow by 3.76%, and Real Estate transfer tax is projected to grow by 5.09%, while the Business Income and Receipts Tax is projected to decline by 2.01%.
- *Wage and Business Tax Cuts.* The current Five Year Plan (FY 2017 to 2021) also includes a continuation of wage and business tax cuts resumed in FY 2014 after being suspended during the Great Recession. The residential rate was 4.3010% in FY2006, is currently 3.9004% in FY2017, and is projected to continue to drop to 3.7276% by FY2021. Regarding the Business Income and Receipts Tax, the FY2017 rate for gross receipts is 0.1415% and the net income rate is 6.35%. By 2021, the net income rate will fall to 6.15%.
- *Philadelphia Beverage Tax.* In June 2016, City Council passed the Philadelphia Beverage Tax (PBT). The Beverage Tax taxes the distribution of sweetened drinks at 1.5 cents per ounce and became effective January 1, 2017. The Beverage Tax is expected to provide funding for pre-kindergarten, community schools, recreation centers and libraries. The City projects to collect approximately $42.2 million in FY2017, and slightly over $92 million annually in FY2018 through 2021. In September 2016, a lawsuit challenging the PBT was filed by the American Beverage Association and other co-plaintiffs in the Court of Common Pleas. This complaint was dismissed in its entirety by the Court of Common Pleas in December 2016. Following the decision, the plaintiffs appealed the ruling to the Commonwealth Court of Pennsylvania. The appeal is currently on an expedited scheduling track before the Commonwealth Court and is scheduled for oral argument during the first week of April 2017. Mayor Kenney remains committed to providing affordable, quality pre-K to up to 6,500 children over the next five years, investing in civic assets like parks and libraries over time, and creating 25 community schools over the next four years. However, while the litigation is pending, the City cannot fully implement its plan for these two important initiatives. Until there is certainty that the PBT – and its accompanying revenue stream – will not be invalidated by any legal challenge, the City will proceed with limited expansion of these programs.
- *Contract Negotiations.* More than 80% of City employees are represented by one of the City's municipal unions. The City is committed to working with its union partners to reach agreements that are fair to employees while also maintaining the City's fiscal discipline. The four-year District Council 33 contract ratified in August 2016 includes significant pension reform that is described below in the Pension Reforms paragraph. District Council 33 members received 3% wage increases in July 2016, 2017, and 2019 and a 2.5% increase in 2018. The agreement also provided additional funds for the DC33 health fund to continue providing quality health benefits for employees. Local 810 court employees agreed to a one-year contract that expires in June 2017 and received a 3% wage increase and are now on the same contract cycle as District Council 47. The International Association of Fire Fighters (IAFF) had a wage reopener in FY2017 and received a 3.25% increase, consistent with the increase provided to FOP members during the same period. Contracts for the FOP Lodge 5, IAFF Local 22, and District Council 47 members each expire on June 30, 2017. The FY2017-2021 Five Year Plan includes $200 million to budget for the potential costs of these labor agreements.
- *Pension Fund Challenges.* The City of Philadelphia's Municipal Retirement System has a $5.9 billion unfunded liability as of the July 1, 2015 valuation and is only 45% funded. The pension funding ratio has weakened over time, dropping from 77% in FY01 (around peak funding after the FY99 pension bond issuance) to 45% in FY2016. General Fund pension costs make up more than 15% of the City's projected expenditures (including payments on pension obligation bonds) in FY2017.

- *Pension Reforms.* The City and its unions have taken multiple steps to improve the health of the pension fund. Each year, the City has been contributing more than what is legally required, including dedicating sales tax revenue in addition to the minimum municipal obligation (MMO) to improve the funding status of the plan. Over the current FY2017-2021 Five Year Plan, the sales tax revenues are projected to provide an additional $179 million for the pension fund. As discussed above, the contract ratified in August 2016 by District Council 33, the City's largest municipal union, increases contributions for current employees so that those with higher annual salaries pay a higher contribution rate. These additional contributions will increase the assets of the pension fund over time. The agreement with District Council 33 also created a stacked hybrid plan that is mandatory for new hires. The stacked hybrid plan combines a traditional defined benefit for the first $50,000 of an employee's earnings and an optional 401k, with an employer match, for earnings above this amount. The stacked hybrid plan provides retirement security for the City's employees while also reducing the pension system's liabilities. The Pension Board has also gradually lowered the assumed rate of return from 8.75% to 7.75% since FY08 and over time has voted to make assumptions around mortality and other demographic factors more conservative. While fiscally prudent, these changes also lower the fund's actuarial funding percentage. The changes are partially responsible for recent increases in the City's minimum municipal obligation.
- *Improving Employee Healthcare Costs:* The City will continue to work with its union partners to help address the rising costs of health insurance and promote wellness. The municipal unions each provide benefits for members through union administered Health and Welfare Funds, and the City has minority representation on those boards. Non-union employees are provided benefits through the City Administered Benefits Program (CAP). In FY10, the City moved from a fully-insured model to a self-insurance arrangement. The City also increased employee copays and instituted a disease management and wellness program with financial incentives for completing wellness activities. In FY2015, the City added a tobacco user surcharge and employees will pay an additional copay for each prescription if using a pharmacy that sells tobacco products.
- *Economic Development:* After decades of population loss, the City has experienced several years of consistent population growth and new investment in its neighborhoods, spurred in part by the relative affordability of housing options and the City's array of cultural amenities. As a hub for education and medicine, the City is home to a number of institutions of higher education, medical and research facilities, and hospitals, and these institutions improve the neighborhoods around them. The City also has a strong business and personal services economy with strengths in insurance, law, finance, and leisure and hospitality. Additionally, the consistent efforts of Philadelphia's economic development agencies as well as private investment have spurred significant economic changes throughout the City. Development in the Navy Yard has, over time, transitioned a formal naval property and active military base to a growing hub for business. The City's hotel room inventory has increased to help meet demand, and investments in commercial corridors across the City have helped existing businesses renovate, attracted new businesses, and helped reduce vacancy rates in those neighborhood commercial areas. As of June 2016, Philadelphia had 48 major projects under construction concurrently, representing almost $7.3 billion in combined public and private investment.

**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

# City of Philadelphia
PENNSYLVANIA

# Basic Financial Statements

**City of Philadelphia** **Exhibit I**
**Statement of Net Position**
**June 30, 2016**

*Amounts in thousands of USD*

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business Type Activities | Total | Component Units |
| **Assets** | | | | |
| Cash on Deposit and on Hand | 59,265 | 30 | 59,295 | 268,185 |
| Equity in Pooled Cash and Investments | - | - | - | 272,564 |
| Equity in Treasurer's Account | 752,746 | 200,379 | 953,125 | - |
| Investments | 102,969 | - | 102,969 | 228,324 |
| Due from Component Units | 49,515 | - | 49,515 | - |
| Due from Primary Government | - | - | - | 100,878 |
| Amounts Held by Fiscal Agent | 54,454 | - | 54,454 | - |
| Notes Receivable - Net | - | - | - | 25,553 |
| Accounts Receivable - Net | 377,927 | 164,623 | 542,550 | 281,174 |
| Interest and Dividends Receivable | 4,122 | - | 4,122 | 20,924 |
| Due from Other Governments - Net | 641,724 | 3,422 | 645,146 | 139,135 |
| Inventories | 14,163 | 74,843 | 89,006 | 203,114 |
| Other Assets | 80,765 | 126 | 80,891 | 77,706 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | - | 837,817 | 837,817 | 181,818 |
| Other Assets | - | 300,678 | 300,678 | 137,975 |
| Capital Assets: | | | | |
| Land and Other Non-Depreciated Assets | 873,575 | 884,423 | 1,757,998 | 328,295 |
| Other Capital Assets (Net of Depreciation) | 1,500,013 | 3,336,443 | 4,836,456 | 3,105,840 |
| Total Capital Assets, Net | 2,373,588 | 4,220,866 | 6,594,454 | 3,434,135 |
| Total Assets | 4,511,238 | 5,802,784 | 10,314,022 | 5,371,485 |
| **Deferred Outflows of Resources** | 878,564 | 158,661 | 1,037,225 | 538,603 |
| **Liabilities** | | | | |
| Notes Payable | 80,388 | 189,900 | 270,288 | 80,297 |
| Vouchers Payable | 79,903 | 9,650 | 89,553 | 68,292 |
| Accounts Payable | 238,855 | 104,180 | 343,035 | 175,744 |
| Salaries and Wages Payable | 85,970 | 9,237 | 95,207 | 94,937 |
| Accrued Expenses | 44,008 | 37,154 | 81,162 | 254,627 |
| Due to Agency Funds | 699 | - | 699 | - |
| Due to Primary Government | - | - | - | 34,427 |
| Due to Component Units | 47,405 | 1,021 | 48,426 | - |
| Funds Held in Escrow | 12,017 | 1,741 | 13,758 | 10,985 |
| Due to Other Governments | 2,156 | - | 2,156 | 33,286 |
| Unearned Revenue | 315,371 | 31,472 | 346,843 | 203,911 |
| Overpayment of Taxes | 174,871 | - | 174,871 | 18,612 |
| Other Current Liabilities | - | - | - | 72,173 |
| Derivative Instrument Liability | 84,202 | 17,547 | 101,749 | 664 |
| Long-term Liabilities: | | | | |
| Due within one year | | | | |
| Bonds Payable & Other Long-term Liabilities | 343,607 | 187,968 | 531,575 | 340,403 |
| Due in more than one year | | | | |
| Bonds Payable & Other Long-term Liabilities | 4,256,513 | 2,993,675 | 7,250,188 | 4,501,739 |
| Net OPEB Liability | 296,474 | - | 296,474 | 386,355 |
| Net Pension Liability | 5,611,853 | 678,602 | 6,290,455 | 3,200,287 |
| Total Liabilities | 11,674,292 | 4,262,147 | 15,936,439 | 9,476,739 |
| **Deferred Inflows of Resources** | 39,689 | 4,386 | 44,075 | 454,307 |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 955,217 | 1,323,668 | 2,278,885 | 65,063 |
| Restricted For: | | | | |
| Capital Projects | 108,318 | 146,299 | 254,617 | 5,381 |
| Debt Service | 74,018 | 298,487 | 372,505 | 244,793 |
| Pension Oblig Bond Refunding Reserve | 44,764 | - | 44,764 | - |
| Behavioral Health | 220,062 | - | 220,062 | - |
| Neighborhood Revitalization | 19 | - | 19 | - |
| Stadium Financing | 558 | - | 558 | - |
| Central Library Project | 1,688 | - | 1,688 | - |
| Cultural & Commercial Corridor Project | 7,444 | - | 7,444 | - |
| Grant Programs | 94,719 | - | 94,719 | 27,033 |
| Rate Stabilization | - | 205,761 | 205,761 | - |
| Libraries & Parks: | | | | |
| Expendable | 3,235 | - | 3,235 | - |
| Non-Expendable | 3,137 | - | 3,137 | - |
| Educational Programs | - | - | - | 14,861 |
| Other | 67,182 | - | 67,182 | 9,809 |
| Unrestricted(Deficit) | (7,904,540) | (279,303) | (8,183,843) | (4,387,898) |
| Total Net Position | (6,324,179) | 1,694,912 | (4,629,267) | (4,020,958) |

The notes to the financial statements are an integral part of this statement.

**Statement of Activities**

**For the Fiscal Year Ended June 30, 2016**

*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 | 115,315 | 90 | 919 | 446 | (113,860) | | (113,860) | |
| Transportation: | | | | | | | | |
| Streets & Highways | 136,811 | 5,847 | 44,392 | 49,875 | (36,697) | | (36,697) | |
| Mass Transit | 76,099 | 2,172 | 134 | - | (73,793) | | (73,793) | |
| Judiciary and Law Enforcement: | | | | | | | | |
| Police | 1,232,416 | 5,130 | 9,729 | - | (1,217,557) | | (1,217,557) | |
| Prisons | 381,642 | 349 | 29 | - | (381,264) | | (381,264) | |
| Courts | 339,596 | 50,255 | 47,733 | - | (241,608) | | (241,608) | |
| Conservation of Health: | | | | | | | | |
| Emergency Medical Services | 66,322 | 45,679 | 6,946 | - | (13,697) | | (13,697) | |
| Health Services | 1,579,052 | 14,050 | 1,325,809 | - | (239,193) | | (239,193) | |
| Housing and Neighborhood Development | 80,091 | 18,114 | 51,389 | - | (10,588) | | (10,588) | |
| Cultural and Recreational: | | | | | | | | |
| Recreation | 116,618 | 4,597 | 7,359 | - | (104,662) | | (104,662) | |
| Parks | 8,393 | 976 | - | 8,272 | 855 | | 855 | |
| Libraries and Museums | 88,768 | 1,239 | 6,712 | - | (80,817) | | (80,817) | |
| Improvements to General Welfare: | | | | | | | | |
| Social Services | 688,718 | 1,218 | 533,798 | - | (153,702) | | (153,702) | |
| Education | 134,494 | - | - | - | (134,494) | | (134,494) | |
| Inspections and Demolitions | 65,344 | 54,064 | 1,062 | - | (10,218) | | (10,218) | |
| Service to Property: | | | | | | | | |
| Sanitation | 157,037 | 16,547 | 1,887 | - | (138,603) | | (138,603) | |
| Fire | 370,694 | 333 | 1,532 | - | (368,829) | | (368,829) | |
| General Management and Support | 648,149 | 158,345 | 51,432 | 3,178 | (435,194) | | (435,194) | |
| Interest on Long Term Debt | 158,168 | 192 | - | - | (157,976) | | (157,976) | |
| Total Governmental Activities | 6,443,727 | 379,197 | 2,090,862 | 61,771 | (3,911,897) | | (3,911,897) | |
| Business Type Activities: | | | | | | | | |
| Water and Sewer | 568,981 | 669,950 | 870 | 1,506 | - | 103,345 | 103,345 | |
| Aviation | 400,176 | 433,651 | - | 24,203 | - | 57,678 | 57,678 | |
| Industrial and Commercial Development | - | 522 | - | 1,136 | - | 1,658 | 1,658 | |
| Total Business Type Activities | 969,157 | 1,104,123 | 870 | 26,845 | - | 162,681 | 162,681 | |
| Total Primary Government | 7,412,884 | 1,483,320 | 2,091,732 | 88,616 | (3,911,897) | 162,681 | (3,749,216) | |
| **Component Units:** | | | | | | | | |
| Gas Operations | 582,576 | 580,309 | 12,321 | - | | | | 10,054 |
| Housing | 72,532 | 6,556 | 59,101 | - | | | | (6,875) |
| Parking | 239,572 | 242,855 | - | - | | | | 3,283 |
| Education | 3,096,511 | 42,567 | 1,008,976 | 1,260 | | | | (2,043,708) |
| Health | 811,528 | - | 811,342 | - | | | | (186) |
| Economic Development | 194,367 | 15,475 | 110,190 | 65,827 | | | | (2,875) |
| Total Component Units | 4,997,086 | 887,762 | 2,001,930 | 67,087 | | | | (2,040,307) |
| General Revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property Taxes | | | | | 550,226 | - | 550,226 | 669,424 |
| Wage & Earnings Taxes | | | | | 1,816,791 | - | 1,816,791 | - |
| Business Taxes | | | | | 505,613 | - | 505,613 | - |
| Other Taxes | | | | | 733,490 | - | 733,490 | 424,507 |
| Grants & Contributions Not Restricted to Specific Programs | | | | | 185,444 | 1,871 | 187,315 | 1,137,845 |
| Unrestricted Interest & Investment Earnings | | | | | 28,031 | 8,282 | 36,313 | 17,569 |
| Miscellaneous | | | | | - | - | - | 3,356 |
| Special Items | | | | | - | - | - | 3,757 |
| Transfers | | | | | 31,622 | (31,622) | - | - |
| Total General Revenues, Special Items and Transfers | | | | | 3,851,217 | (21,469) | 3,829,748 | 2,256,458 |
| Change in Net Position | | | | | (60,680) | 141,212 | 80,532 | 216,151 |
| Net Position - July 1, 2015 | | | | | (6,263,488) | 1,575,748 | (4,687,740) | (4,228,463) |
| Adjustment | | | | | (11) | (22,048) | (22,059) | (8,646) |
| Net Position Adjusted - July 1, 2015 | | | | | (6,263,499) | 1,553,700 | (4,709,799) | (4,237,109) |
| Net Position - June 30, 2016 | | | | | (6,324,179) | 1,694,912 | (4,629,267) | (4,020,958) |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia** **Exhibit III**
**Balance Sheet**
**Governmental Funds**
**June 30, 2016**

*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 | 11,580 | - | 87 | 38,561 | 50,228 |
| Equity in Treasurer's Account | 400,900 | 116,113 | - | 235,733 | 752,746 |
| Investments | - | - | - | 112,004 | 112,004 |
| Due from Other Funds | 52,183 | - | - | 39 | 52,222 |
| Due from Component Units | 49,515 | - | - | - | 49,515 |
| Amounts Held by Fiscal Agent | 54,454 | - | - | - | 54,454 |
| Taxes Receivable | 592,562 | - | - | 13,196 | 605,758 |
| Accounts Receivable | 376,322 | - | 1,463 | 6,452 | 384,237 |
| Due from Other Governmental Units | 9,280 | 150,682 | 398,106 | 83,656 | 641,724 |
| Allowance for Doubtful Accounts | (611,171) | - | - | (897) | (612,068) |
| Interest and Dividends Receivable | 615 | 273 | - | 16 | 904 |
| Other Assets | - | - | - | 377 | 377 |
| Total Assets | 936,240 | 267,068 | 399,656 | 489,137 | 2,092,101 |
| **Liabilities** | | | | | |
| Vouchers Payable | 30,776 | 870 | 31,889 | 16,368 | 79,903 |
| Accounts Payable | 86,080 | 7,794 | 112,691 | 32,255 | 238,820 |
| Salaries and Wages Payable | 79,738 | - | 5,814 | 418 | 85,970 |
| Payroll Taxes Payable | - | - | - | 42 | 42 |
| Due to Other Funds | 699 | - | 41,912 | 10,310 | 52,921 |
| Due to Component Units | 85 | 38,342 | 3,941 | 5,037 | 47,405 |
| Funds Held in Escrow | 7,983 | - | - | 4,034 | 12,017 |
| Due to Other Governmental Units | 2,156 | - | - | - | 2,156 |
| Unearned Revenue | 175,152 | - | 131,372 | 8,847 | 315,371 |
| Overpayment of Taxes | 174,871 | - | - | - | 174,871 |
| Total Liabilities | 557,540 | 47,006 | 327,619 | 77,311 | 1,009,476 |
| **Deferred Inflows of Resources** | 246,232 | - | 353,701 | 67,484 | 667,417 |
| **Fund Balances** | | | | | |
| Nonspendable | - | - | - | 3,137 | 3,137 |
| Restricted | 54,454 | 220,062 | 40,831 | 341,970 | 657,317 |
| Committed | - | - | - | 4,544 | 4,544 |
| Assigned | 78,014 | - | - | - | 78,014 |
| Unassigned | - | - | (322,495) | (5,309) | (327,804) |
| Total Fund Balances | 132,468 | 220,062 | (281,664) | 344,342 | 415,208 |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | 936,240 | 267,068 | 399,656 | 489,137 | |

**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 | 2,373,588 |
| b. Unavailable Revenue are reported as Deferred Inflows of Resources in the funds | 665,907 |
| c. Long Term Liabilities, including bonds payable are not reported in the funds | (4,600,120) |
| d. Derivatives and Deferred Outflows of Resources are not reported in the funds | 794,362 |
| e. Other | (26,618) |
| f. Net Pension & OPEB Liabilities are not reported in the funds | (5,946,506) |
| Net Position of Governmental Activities | (6,324,179) |

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, 2016**

*Amounts in thousands of USD*

| | General Fund | HealthChoices Behavioral Health Fund | Grants Revenue Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Tax Revenue | 2,974,729 | - | - | 657,925 | 3,632,654 |
| Locally Generated Non-Tax Revenue | 291,954 | 1,209 | 47,834 | 26,351 | 367,348 |
| Revenue from Other Governments | 305,643 | 893,202 | 912,654 | 133,694 | 2,245,193 |
| Other Revenues | 16,581 | - | - | 3,054 | 19,635 |
| Total Revenues | 3,588,907 | 894,411 | 960,488 | 821,024 | 6,264,830 |
| **Expenditures** | | | | | |
| Current Operating: | | | | | |
| Economic Development | 41,987 | - | 1,058 | 58,062 | 101,107 |
| Transportation: | | | | | |
| Streets & Highways | 68,696 | - | 3,643 | 32,781 | 105,120 |
| Mass Transit | 75,988 | - | 134 | - | 76,122 |
| Judiciary and Law Enforcement: | | | | | |
| Police | 1,153,574 | - | 8,949 | - | 1,162,523 |
| Prisons | 362,407 | - | 29 | 2,645 | 365,081 |
| Courts | 293,260 | - | 36,665 | - | 329,925 |
| Conservation of Health: | | | | | |
| Emergency Medical Services | 57,989 | - | 6,946 | - | 64,935 |
| Health Services | 167,003 | 873,936 | 387,244 | 144,892 | 1,573,075 |
| Housing and Neighborhood Development | 3,292 | - | 19,945 | 56,826 | 80,063 |
| Cultural and Recreational: | | | | | |
| Recreation | 97,445 | - | 7,350 | - | 104,795 |
| Parks | - | - | - | 1,488 | 1,488 |
| Libraries and Museums | 75,143 | - | 6,140 | 116 | 81,399 |
| Improvements to General Welfare: | | | | | |
| Social Services | 147,624 | - | 539,482 | - | 687,106 |
| Education | 134,494 | - | - | - | 134,494 |
| Inspections and Demolitions | 41,568 | - | 22,475 | - | 64,043 |
| Service to Property: | | | | | |
| Sanitation | 150,479 | - | 1,903 | - | 152,382 |
| Fire | 353,436 | - | 1,532 | - | 354,968 |
| General Management and Support | 614,314 | - | 18,512 | 53,578 | 686,404 |
| Capital Outlay | - | - | - | 206,064 | 206,064 |
| Debt Service: | | | | | |
| Principal | 6,655 | - | - | 132,893 | 139,548 |
| Interest | 11,679 | - | - | 95,824 | 107,503 |
| Bond Issuance Cost | 991 | - | - | 2,353 | 3,344 |
| Total Expenditures | 3,858,024 | 873,936 | 1,062,007 | 787,522 | 6,581,489 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (269,117) | 20,475 | (101,519) | 33,502 | (316,659) |
| **Other Financing Sources (Uses)** | | | | | |
| Issuance of Debt | - | - | - | 191,585 | 191,585 |
| Issuance of Refunding Debt | 95,365 | - | - | 138,795 | 234,160 |
| Bond Issuance Premium | 15,982 | - | - | 37,897 | 53,879 |
| Payment to Refunded Bonds Escrow Agent | (103,664) | - | - | (155,916) | (259,580) |
| Transfers In | 409,106 | - | - | 277,178 | 686,284 |
| Transfers Out | (170,699) | - | (31,881) | (452,082) | (654,662) |
| Total Other Financing Sources (Uses) | 246,090 | - | (31,881) | 37,457 | 251,666 |
| Net Change in Fund Balance | (23,027) | 20,475 | (133,400) | 70,959 | (64,993) |
| Fund Balance - July 1, 2015 | 155,495 | 199,587 | (148,264) | 273,394 | 480,212 |
| Adjustment | - | - | - | (11) | (11) |
| Fund Balance Adjusted - July 1, 2015 | 155,495 | 199,587 | (148,264) | 273,383 | 480,201 |
| Fund Balance - June 30, 2016 | 132,468 | 220,062 | (281,664) | 344,342 | 415,208 |

The notes to the financial statements are an integral part of this statement.

*Amounts in thousands of USD*

| | |
|---|---|
| **Net Change in Fund Balances - Total Governmental Funds** | (64,993) |
| **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 ($192,409) exceeded depreciation ($143,287) in the current period | 49,122 |
| b. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds | 87,437 |
| 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 ($546,490) exceeded proceeds ($479,624) | 66,866 |
| d. The increase in the Net Pension Liability 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 | (104,589) |
| 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 | (94,523) |
| **Change in Net Position of governmental activities** | (60,680) |

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, 2016**

*Amounts in thousands of USD*

| | Business Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | | | Other Non-Major | |
| **Assets** | Water and Sewer | Aviation | Industrial & Commercial Development | Total |
| Current Assets: | | | | |
| Cash on Deposit and on Hand | 30 | - | - | 30 |
| Equity in Treasurer's Account | 79,044 | 116,254 | 5,081 | 200,379 |
| Due from Other Governments | 125 | 1,325 | 1,972 | 3,422 |
| Accounts Receivable | 152,588 | 26,216 | 6 | 178,810 |
| Allowance for Doubtful Accounts | (13,007) | (1,180) | - | (14,187) |
| Inventories | 14,915 | 3,396 | 56,532 | 74,843 |
| Other Assets | 126 | - | - | 126 |
| Total Current Assets | 233,821 | 146,011 | 63,591 | 443,423 |
| Non-Current Assets: | | | | |
| Restricted Assets: | | | | |
| Equity in Treasurer's Account | 550,746 | 287,071 | - | 837,817 |
| Sinking Funds and Reserves | 220,890 | 47,869 | - | 268,759 |
| Grants for Capital Purposes | - | 21,807 | - | 21,807 |
| Receivables | 740 | 9,372 | - | 10,112 |
| Total Restricted Assets | 772,376 | 366,119 | - | 1,138,495 |
| Capital Assets: | | | | |
| Land | 5,919 | 150,124 | - | 156,043 |
| Infrastructure | 2,466,451 | 1,028,188 | - | 3,494,639 |
| Construction in Progress | 296,254 | 432,126 | - | 728,380 |
| Buildings and Equipment | 1,768,387 | 2,112,276 | - | 3,880,663 |
| Less: Accumulated Depreciation | (2,306,778) | (1,732,081) | - | (4,038,859) |
| Total Capital Assets, Net | 2,230,233 | 1,990,633 | - | 4,220,866 |
| Total Non-Current Assets | 3,002,609 | 2,356,752 | - | 5,359,361 |
| Total Assets | 3,236,430 | 2,502,763 | 63,591 | 5,802,784 |
| **Deferred Outflows of Resources** | 108,809 | 49,852 | - | 158,661 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Vouchers Payable | 6,635 | 3,015 | - | 9,650 |
| Accounts Payable | 11,939 | 10,930 | - | 22,869 |
| Salaries and Wages Payable | 6,598 | 2,639 | - | 9,237 |
| Construction Contracts Payable | 42,880 | 38,431 | - | 81,311 |
| Due to Component Units | 1,021 | - | - | 1,021 |
| Accrued Expenses | 33,215 | 3,939 | - | 37,154 |
| Funds Held in Escrow | 1,741 | - | - | 1,741 |
| Unearned Revenue | 9,785 | 21,687 | - | 31,472 |
| Commercial Paper Notes | - | 189,900 | - | 189,900 |
| Bonds Payable-Current | 124,728 | 63,240 | - | 187,968 |
| Total Current Liabilities | 238,542 | 333,781 | - | 572,323 |
| Derivative Instrument Liability | 1,508 | 16,039 | - | 17,547 |
| Net OPEB Liability | - | - | - | - |
| Net Pension Liability | 455,841 | 222,761 | - | 678,602 |
| Non-Current Liabilities: | | | | |
| Bonds Payable | 1,842,386 | 1,097,664 | - | 2,940,050 |
| Other Non-Current Liabilities | 38,995 | 14,630 | - | 53,625 |
| Total Non-Current Liabilities | 1,881,381 | 1,112,294 | - | 2,993,675 |
| Total Liabilities | 2,577,272 | 1,684,875 | - | 4,262,147 |
| **Deferred Inflows of Resources** | 2,863 | 1,523 | - | 4,386 |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 523,367 | 800,301 | - | 1,323,668 |
| Restricted For: | | | | |
| Capital Projects | 73,266 | 73,033 | - | 146,299 |
| Debt Service | 220,889 | 77,598 | - | 298,487 |
| Rate Stabilization | 205,761 | - | - | 205,761 |
| Unrestricted | (258,179) | (84,715) | 63,591 | (279,303) |
| Total Net Position | 765,104 | 866,217 | 63,591 | 1,694,912 |

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, 2016**

*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 | 659,583 | 110,787 | - | 770,370 |
| Rentals and Concessions | - | 225,000 | - | 225,000 |
| Operating Grants | 870 | - | - | 870 |
| Miscellaneous Operating Revenues | 10,367 | 5,009 | 522 | 15,898 |
| Total Operating Revenues | 670,820 | 340,796 | 522 | 1,012,138 |
| Operating Expenses: | | | | |
| Personal Services | 122,873 | 69,283 | - | 192,156 |
| Purchase of Services | 97,409 | 108,419 | - | 205,828 |
| Materials and Supplies | 36,376 | 6,945 | - | 43,321 |
| Employee Benefits | 117,394 | 57,855 | - | 175,249 |
| Indemnities and Taxes | 8,220 | 1,695 | - | 9,915 |
| Depreciation | 101,711 | 101,909 | - | 203,620 |
| Total Operating Expenses | 483,983 | 346,106 | - | 830,089 |
| Operating Income (Loss) | 186,837 | (5,310) | 522 | 182,049 |
| Non-Operating Revenues (Expenses): | | | | |
| Federal, State and Local Grants | 250 | 1,621 | - | 1,871 |
| Passenger and Customer Facility Charges | - | 92,855 | - | 92,855 |
| Interest Income | 5,600 | 2,658 | 24 | 8,282 |
| Debt Service - Interest | (82,659) | (54,003) | - | (136,662) |
| Other Revenue (Expenses) | (2,339) | (67) | - | (2,406) |
| Total Non-Operating Revenues (Expenses) | (79,148) | 43,064 | 24 | (36,060) |
| Income (Loss) Before Contributions & Transfers | 107,689 | 37,754 | 546 | 145,989 |
| Transfers In/(Out) | (31,622) | - | - | (31,622) |
| Capital Contributions | 1,506 | 24,203 | 1,136 | 26,845 |
| Change in Net Position | 77,573 | 61,957 | 1,682 | 141,212 |
| Net Position - July 1, 2015 | 709,579 | 804,260 | 61,909 | 1,575,748 |
| Adjustment | (22,048) | - | - | (22,048) |
| Net Position Adjusted - July 1, 2015 | 687,531 | 804,260 | 61,909 | 1,553,700 |
| Net Position - June 30, 2016 | 765,104 | 866,217 | 63,591 | 1,694,912 |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia** **Exhibit VIII**
**Statement of Cash Flows**
**Proprietary Funds**
**For the Fiscal Year Ended June 30, 2016**

*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 | 677,061 | 366,334 | - | 1,043,395 |
| Payments to Suppliers | (143,758) | (112,151) | - | (255,909) |
| Payments to Employees | (230,376) | (121,821) | - | (352,197) |
| Internal Activity-Payments to Other Funds | - | (7,039) | - | (7,039) |
| Claims Paid | (5,441) | - | - | (5,441) |
| Other Receipts (Payments) | - | 1,040 | 522 | 1,562 |
| Net Cash Provided (Used) | 297,486 | 126,363 | 522 | 424,371 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Operating Grants Received | 1,120 | 1,765 | - | 2,885 |
| Operating Subsidies and Transfers from Other Funds | (31,622) | - | - | (31,622) |
| Net Cash Provided (Used) | (30,502) | 1,765 | - | (28,737) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Proceeds from Debt Issuance | 5,823 | 668,900 | - | 674,723 |
| Capital Grants & Contributions Received | - | 25,097 | - | 25,097 |
| Acquisition and Construction of Capital Assets | (175,797) | (151,396) | - | (327,193) |
| Interest Paid on Debt Instruments | (82,250) | (52,910) | - | (135,160) |
| Principal Paid on Debt Instruments | (136,712) | (715,810) | - | (852,522) |
| Passenger Facility Charges | - | 93,931 | - | 93,931 |
| Other Receipts (Payments) | 33 | - | - | 33 |
| Net Cash Provided (Used) | (388,903) | (132,188) | - | (521,091) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from Sale and Maturities of Investments | - | 4,232 | - | 4,232 |
| Interest and Dividends on Investments | 3,626 | 1,012 | 19 | 4,657 |
| Net Cash Provided (Used) | 3,626 | 5,244 | 19 | 8,889 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (118,293) | 1,184 | 541 | (116,568) |
| Cash and Cash Equivalents, July 1 (including $668.1 mil for Water & Sewer and $336.1 mil for Aviation reported in restricted accounts) | 748,113 | 402,141 | 4,540 | 1,154,794 |
| Cash and Cash Equivalents, June 30 (including $550.7 mil for Water & Sewer and $287.1 mil for Aviation reported in restricted accounts) | 629,820 | 403,325 | 5,081 | 1,038,226 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:** | | | | |
| Operating Income (Loss) | 186,837 | (5,310) | 522 | 182,049 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation Expense | 101,711 | 101,909 | - | 203,620 |
| Bad Debts, Net of Recoveries | - | - | - | - |
| Changes in Assets and Liabilities: | | | | |
| Receivables, Net | 4,220 | 6,503 | - | 10,723 |
| Unearned Revenue | 880 | 20,095 | - | 20,975 |
| Inventories | (1,593) | (359) | - | (1,952) |
| Accounts and Other Payables | 2,265 | 3,525 | - | 5,790 |
| Accrued Expenses | 3,166 | - | - | 3,166 |
| Net Cash Provided by Operating Activities | 297,486 | 126,363 | 522 | 424,371 |
| **Schedule of non-cash capital activities:** | | | | |
| Contributions of capital assets | - | - | 1,135 | 1,135 |

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, 2016

*Amounts in thousands of USD*

| | Pension Trust Funds | Agency Funds |
|---|---|---|
| **Assets** | | |
| Cash on Deposit and on Hand | 16,987 | 108,456 |
| Equity in Treasurer's Account | 4,839,674 | 50,571 |
| Investments | - | 2,352 |
| Securities Lending Collective Investment Pool | 330,983 | - |
| Allowance for Unrealized Loss | (315) | - |
| Accounts Receivable | 39,062 | - |
| Due from Brokers for Securities Sold | 97,584 | - |
| Interest and Dividends Receivable | 1,084 | - |
| Due from Other Governmental Units | 9,199 | - |
| Due from Other Funds | - | 699 |
| Total Assets | 5,334,258 | 162,078 |
| **Liabilities** | | |
| Vouchers Payable | 30 | 139 |
| Accounts Payable | 429 | - |
| Salaries and Wages Payable | 110 | - |
| Payroll Taxes Payable | - | 5,384 |
| Funds Held in Escrow | - | 156,555 |
| Due on Return of Securities Loaned | 330,983 | - |
| Due to Brokers for Securities Purchased | 152,922 | - |
| Accrued Expenses | 3,691 | - |
| Other Liabilities | 4,859 | - |
| Total Liabilities | 493,024 | 162,078 |
| Net Position Held in Trust for Pension Benefits | 4,841,234 | - |

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, 2016**

*Amounts in thousands of USD*

| | Pension Trust Funds |
|---|---|
| **Additions:** | |
| Contributions: | |
| Employers' Contributions | 681,369 |
| Employees' Contributions | 67,657 |
| Total Contributions | 749,026 |
| Investment Income: | |
| Interest and Dividends | 113,146 |
| Net Decline in Fair Value of Investments | (239,840) |
| (Less) Investments Expenses | (11,051) |
| Securities Lending Revenue | 1,921 |
| Securities Lending Unrealized Gain | (11,042) |
| (Less) Securities Lending Expenses | (313) |
| Net Investment Loss | (147,180) |
| Miscellaneous Operating Revenues | 4,370 |
| Total Additions | 606,216 |
| **Deductions** | |
| Personal Services | 3,079 |
| Purchase of Services | 2,491 |
| Materials and Supplies | 44 |
| Employee Benefits | 2,861 |
| Pension Benefits | 932,438 |
| Refunds of Members' Contributions | 7,351 |
| Administrative Expenses Paid | 1,610 |
| Other Operating Expenses | 78 |
| Total Deductions | 949,953 |
| Change in Net Position | (343,737) |
| Net Position - July 1, 2015 | 5,184,971 |
| Net Position - June 30, 2016 | 4,841,234 |

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia**
**Statement of Net Position**
**Component Units**
**June 30, 2016**

**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 | 91,743 | 51,249 | 48,018 | 3 | 13,434 | 10,658 | 7,752 | 45,328 | 268,185 |
| Equity in Pooled Cash and Investments | | - | - | 272,564 | - | - | - | - | 272,564 |
| Investments | | 17,387 | 26,079 | 142,850 | 40,719 | - | 1,289 | - | 228,324 |
| Due from Primary Government | - | 11,057 | - | - | - | 74,984 | - | 14,837 | 100,878 |
| Notes Receivable | - | 25,553 | - | - | - | - | - | - | 25,553 |
| Taxes Receivable | 73,563 | - | - | 174,236 | - | - | - | - | 247,799 |
| Accounts Receivable-Net | | 1,661 | 403 | 20,251 | 6,205 | 873 | 2,206 | 1,776 | 33,375 |
| Interest and Dividends Receivable | | 19,856 | 182 | 850 | 36 | | - | - | 20,924 |
| Due from Other Governments | - | 162 | - | 112,559 | 1,408 | - | - | 25,006 | 139,135 |
| Inventories | 47,891 | 153,354 | - | 1,869 | - | - | - | - | 203,114 |
| Other Assets | 66,318 | 4,770 | 96 | 5,948 | - | 384 | 190 | - | 77,706 |
| Restricted Assets: | | | | | | | | | |
| Cash and Cash Equivalents | - | 8,183 | 120,078 | 26,166 | - | - | - | 27,391 | 181,818 |
| Other Assets | 89,255 | 15,808 | - | 13,257 | 1,586 | - | - | 18,069 | 137,975 |
| Capital Assets: | | | | | | | | | |
| Land and Other Non-Depreciated Assets | 79,125 | 170 | 15,844 | 188,442 | 31,861 | - | 1,850 | 11,003 | 328,295 |
| Other Capital Assets (Net of Depreciation) | 1,205,684 | 170 | 164,604 | 1,517,539 | 134,682 | 10,459 | 7,620 | 65,082 | 3,105,840 |
| Total Capital Assets | 1,284,809 | 340 | 180,448 | 1,705,981 | 166,543 | 10,459 | 9,470 | 76,085 | 3,434,135 |
| Total Assets | 1,653,579 | 309,380 | 375,304 | 2,476,534 | 229,931 | 97,358 | 20,907 | 208,492 | 5,371,485 |
| **Deferred Outflows of Resources** | 159,981 | 5,700 | 30,287 | 334,248 | 8,020 | - | 367 | - | 538,603 |
| **Liabilities** | | | | | | | | | |
| Notes Payable | 71,000 | 7,197 | 2,100 | - | - | - | - | - | 80,297 |
| Vouchers Payable | 55,870 | - | - | - | 12,422 | - | - | - | 68,292 |
| Accounts Payable | | 11,780 | 22,180 | 121,938 | - | 5,052 | 996 | 13,798 | 175,744 |
| Salaries and Wages Payable | 3,609 | - | - | 84,952 | 3,478 | 2,898 | - | - | 94,937 |
| Accrued Expenses | 164,645 | 13,407 | 592 | - | 1,160 | 74,221 | 602 | - | 254,627 |
| Funds Held in Escrow | | 9,627 | - | - | 546 | - | - | 812 | 10,985 |
| Due to Other Governments | - | - | 11,949 | 9,116 | 61 | - | - | 12,160 | 33,286 |
| Due to Primary Government | - | 1,500 | 32,927 | - | - | - | - | - | 34,427 |
| Unearned Revenue | 7,881 | 27,188 | - | 62,183 | 2,997 | 2,883 | 9,506 | 91,273 | 203,911 |
| Overpayment of Taxes | - | - | - | 18,612 | - | - | - | - | 18,612 |
| Other Current Liabilities | | - | - | 63,873 | - | 8,300 | - | - | 72,173 |
| Derivative Instrument Liability | | - | - | 664 | - | - | - | - | 664 |
| Net OPEB Liability | 296,093 | 1,758 | 12,617 | - | 70,428 | 4,004 | 1,455 | - | 386,355 |
| Net Pension Liability | - | 16,133 | 145,554 | 3,038,600 | - | - | - | - | 3,200,287 |
| Non-Current Liabilities: | | | | | | | | | |
| Due within one year | 34,790 | 5,266 | 13,170 | 279,908 | 7,269 | - | - | - | 340,403 |
| Due in more than one year | 891,634 | 39,858 | 157,928 | 3,317,877 | 67,609 | - | 2,020 | 24,813 | 4,501,739 |
| Total Liabilities | 1,525,522 | 133,714 | 399,017 | 6,997,723 | 165,970 | 97,358 | 14,579 | 142,856 | 9,476,739 |
| **Deferred Inflows of Resources** | - | 1,057 | 934 | 452,132 | 184 | - | - | - | 454,307 |
| **Net Position** | | | | | | | | | |
| Net Investment in Capital Assets | 415,561 | 170 | 82,384 | (582,931) | 98,776 | | 9,470 | 41,633 | 65,063 |
| Restricted For: | | | | | | | | | |
| Capital Projects | - | - | - | - | 5,381 | - | - | - | 5,381 |
| Debt Service | 89,255 | 10,996 | 2,493 | 142,049 | | - | - | - | 244,793 |
| Educational Programs | - | - | - | 6,315 | 8,546 | - | - | | 14,861 |
| Grant Programs | - | - | - | - | - | - | - | 27,033 | 27,033 |
| Other | - | - | - | 9,809 | - | - | - | - | 9,809 |
| Unrestricted | (216,778) | 169,143 | (79,237) | (4,214,315) | (40,906) | - | (2,775) | (3,030) | (4,387,898) |
| Total Net Position | 288,038 | 180,309 | 5,640 | (4,639,073) | 71,797 | - | 6,695 | 65,636 | (4,020,958) |

* **The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2016. Community Behavioral Health and the Philadelphia Authority for Industrial Development are presented as of the close of their fiscal year, December 31, 2015. The Philadelphia Parking Authority is presented as of the close of their fiscal year, March 31, 2016.**

**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, 2016**

**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 | 582,576 | 580,309 | 12,321 | - | 10,054 | | | | | | | | 10,054 |
| Housing | | | | | | | | | | | | | |
| Redevelopment Authority | 72,532 | 6,556 | 59,101 | - | | (6,875) | | | | | | | (6,875) |
| Parking | | | | | | | | | | | | | |
| Parking Authority | 239,572 | 242,855 | - | - | | | 3,283 | | | | | | 3,283 |
| Education | | | | | | | | | | | | | |
| School District | 2,923,321 | 9,184 | 944,149 | 1,260 | | | | (1,968,728) | | | | | (1,968,728) |
| Community College | 173,190 | 33,383 | 64,827 | - | | | | | (74,980) | | | | (74,980) |
| Total | 3,096,511 | 42,567 | 1,008,976 | 1,260 | | | | | | | | | |
| Health | | | | | | | | | | | | | |
| Community Behavioral Health | 811,528 | - | 811,342 | - | | | | | | (186) | | | (186) |
| Economic Development | | | | | | | | | | | | | |
| | - | - | - | - | | | | | | | | | - |
| Delaware River Waterfront Corp. | 22,108 | 12,251 | 9,355 | - | | | | | | | (502) | | (502) |
| Authority for Ind. Development | 172,259 | 3,224 | 100,835 | 65,827 | | | | | | | | (2,373) | (2,373) |
| Total | 194,367 | 15,475 | 110,190 | 65,827 | | | | | | | | | |
| Total Component Units | 4,997,086 | 887,762 | 2,001,930 | 67,087 | | | | | | | | | (2,040,307) |
| General Revenues: | | | | | | | | | | | | | |
| Property Taxes | | | | | - | - | - | 669,424 | - | - | - | - | 669,424 |
| Other Taxes | | | | | - | - | - | 424,507 | - | - | - | - | 424,507 |
| Grants & Contributions Not Restricted to Specific Programs | | | | | - | - | - | 1,072,091 | 65,754 | - | - | - | 1,137,845 |
| Unrestricted Interest & Investment Earnings | | | | | - | 3,932 | 3,824 | 8,725 | 838 | 186 | 34 | 30 | 17,569 |
| Miscellaneous | | | | | - | - | - | - | 3,356 | - | - | - | 3,356 |
| Special Item-Gain (Loss) on Sale of Capital Assets | | | | | - | - | - | 2,064 | - | - | - | 1,693 | 3,757 |
| Total General Revenue ,Special items and Transfers | | | | | - | 3,932 | 3,824 | 2,176,811 | 69,948 | 186 | 34 | 1,723 | 2,256,458 |
| Change in Net Position | | | | | 10,054 | (2,943) | 7,107 | 208,083 | (5,032) | - | (468) | (650) | 216,151 |
| Net Position - July 1, 2015 | | | | | 277,984 | 72,550 | 118,072 | (4,847,238) | 76,720 | - | 7,163 | 66,286 | (4,228,463) |
| Adjustment | | | | | - | 110,702 | (119,539) | 82 - | 109 | - | - | - | (8,646) |
| Net Position Adjusted - July 1, 2015 | | | | | 277,984 | 183,252 | (1,467) | (4,847,156) | 76,829 | - | 7,163 | 66,286 | (4,237,109) |
| Net Position - June 30, 2016 | | | | | 288,038 | 180,309 | 5,640 | (4,639,073) | 71,797 | - | 6,695 | 65,636 | (4,020,958) |

* The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2016. Community Behavioral Health and the Philadelphia Authority for Industrial Development are presented as of the close of their fiscal year, December 31, 2015. The Philadelphia Parking Authority is presented as of the close of their fiscal year, March 31, 2016.

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 06/30/2016

Table of Contents

## 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. 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. CCP's reported amounts include the financial activity of the Community College of Philadelphia Foundation, which is a discretely presented component unit of CCP.

**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 be-

tween Allegheny and Oregon Avenues. As stated in **DWRC**'s Articles of Incorporation, **DRWC** is organized exclusively for the benefit of the City of Philadelphia, therefore, the significance of the City's relationship with **DRWC** is such that exclusion from the City's financial report would be misleading.

**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. PRA's reported amounts include the financial activity of the Head House Retail Associates, L.P., which is PRA's discretely presented component unit whose fiscal year ended December 31, 2015.

**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 the debt service that PAID issues on the City's behalf.

**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 ORGANIZATIONS

**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 remains 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 **CCP** 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 December 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 (except for the Aviation Fund which uses $10,000 for personal property and $100,000 for fixed assets). 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 acquisition price 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 “substantially complete” as their determining basis for transferring construction in process to one or more of the major asset classes), (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 and unemployment benefits to its employees. The City is self-insured for medical benefits provided to employees in the Fraternal Order of Police, the city-administered health plan, the International Association of Fire Fighters and District Council 47.

## 9. RECEIVABLES 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".

Accounts receivable included in current assets consists of billed and unbilled rentals and fees, which have been earned but not collected as of June 30, 2016. Credit balance receivables have been included in unearned revenue in the statement of net position. The allowance for doubtful accounts is management's estimate of the amount of accounts receivable which will be deemed to be uncollectible and is based upon specific identi-fication. Unpaid accounts are referred to the City's Law Department if deemed uncollectible. Accounts are writ-ten off when recommended by the Law Department.

In fiscal year 2015, the Division of Aviation and the Philadelphia Airport Affairs Committee (PAAC) entered into an agreement that would reduce the fiscal year 2015 base rate to the airlines in exchange for a $10 million contribution from the Airport's Operation and Maintenance (O&M) reserve account that would be replenished by the signatory airlines, through the rates and charges process, over a three-year period from fiscal years 2016 to 2018. The Airport included this $10 million as part of the $32.5 million Accounts Receivable reported for the Aviation Fund in the FY 2015 Statement of Net Position. However, since the agreement states that repayment of the contribution is to take place over the next three years, $6.7 million of the $10 million receivable will not be collected until fiscal years 2017 and 2018.

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 31.95% 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. The City of Philadelphia and the School District of Philadelphia both impose a tax on all real estate in the City. Current real estate rates are $1.3998 on each $100 assessment; $0.6317 for the City and $0.7681 for the School District of Philadelphia. 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 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 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 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).

Beginning in fiscal year ended June 30, 2015 the city implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires the reporting of pension transactions that incorporates deferred outflows of resources and deferred inflows of resources related to pensions over a defined, closed period, rather than a choice between an open or closed period.

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. Deferred Inflows of resources represents an acquisition of net position that applies to future periods and will not be recognized as revenue until that time.

On the **full accrual basis** of accounting, the City has three items that qualify for reporting in all three categories.

- 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.
- Deferred pension transactions are recognized as an expense or revenue in a future period.

Six component units, including (**PGW),** (**PRA**), (**PPA**), (**SDP**), (**CCP**), and **(DRWC)** have items that qualify in some of the categories, which is deferred refunding and deferred pension categories. These items have been reported as deferred outflows or deferred inflows on the City's and the component unit's Statement of Net Position.

| (Amounts in Thousands of USD) **Deferred Outflows of Resources** | **Governmental Activities** | **Business Type Activities** | **Component Unit** |
|---|---|---|---|
| Derivative Instrument | 86,257 | 17,547 | 14,763 |
| Deferred Charge of Refunding | 71,720 | 53,765 | 186,012 |
| Deferred Pension Expense | 720,587 | 87,349 | 337,828 |
| **Total:** | 878,564 | 158,661 | 538,603 |

| (Amounts in Thousands of USD) **Deferred Inflows of Resources** | **Governmental Activities** | **Business Type Activities** | **Component Unit** |
|---|---|---|---|
| Deferred Gain of Refunding | 1,510 | 172 | 31 |
| Deferred Pension Revenue | 38,179 | 4,214 | 453,342 |
| Unavailable Government Revenue | - | - | 934 |
| **Total:** | 39,689 | 4,385 | 454,307 |

On the **modified accrual statements**, there were no deferred outflows and 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)* **Deferred Inflows of Resources** | **General Fund** | **Grants Revenue Fund** | **Other Governmental Funds** |
|---|---|---|---|
| Unavailable Tax Revenue | 157,370 | - | 213 |
| Unavailable Agency Revenue | 49,017 | - | - |
| Unavailable Government Revenue | 39,845 | 353,701 | 67,271 |
| **Total:** | 246,232 | 353,701 | 67,484 |

## 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 ($5.7 million) and Business Income and Receipts Tax (BIRT) ($169.5 million).

## 14. NEW ACCOUNTING STANDARDS

In fiscal year 2016, the City implemented **GASB Statement No. 72, Fair Value Measurement and Application, (GASB 72)**. This Statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. As a result of the adoption of GASB 72, the City has determined and disclosed all fair value measurements.

In June 2015, GASB issued **Statement No. 73**, **Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68**. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The City's accounting and financial reporting are within the scope of Statement No 68. The adoption of this Statement did not result in any significant changes to the City's financial statements.

In June 2015, GASB issued **Statement No. 74**, **Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The scope of this Statement includes OPEB plans— defined benefit and defined contribution—administered through trusts that meet certain criteria. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet specified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The City has not completed the process of evaluating the impact of adopting this Statement.

In June 2015, GASB issued **Statement No. 75**, **Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This State-ment replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. It establishes standards for recognizing and measuring liabili-ties, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined bene-fit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about de-fined benefit OPEB also are addressed. This Statement is effective for fiscal years beginning after June 15, 2017. The City has not completed the process of evaluating the impact of adopting this Statement.

In June 2015, GASB issued **Statement No. 76**, **The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments**. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The adoption of this Statement did not result in any significant changes to the City's financial statements.

In August 2015, GASB issued **Statement No. 77**, **Tax Abatement Disclosures**. This Statement requires governments that enter into tax abatement agreements to disclose certain information regarding the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients. It also requires disclosure of the gross dollar amount of taxes abated during the period and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The City has not completed the process of evaluating the impact of adopting this Statement.

In December 2015, GASB issued **Statement No. 78**, **Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans**. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The City has not completed the process of evaluating the impact of adopting this Statement.

In December 2015, GASB issued **Statement No. 79**, **Certain External Investment Pools and Pool Participants, (GASB 79)**. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 30, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing which are effective for reporting periods beginning after December 15, 2015. As a result of the adoption of GASB 79, the City has determined and included all applicable disclosures.

In January 2016, GASB issued **Statement No. 80**, **Blending Requirements For Certain Component Units, an amendment of GASB Statement No. 14**. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No.14, The Financial Reporting Entity. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The City has not completed the process of evaluating the impact of adopting this Statement.

In March 2016, GASB issued **Statement No. 81**, **Irrevocable Split-Interest Agreements**. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The City has not completed the process of evaluating the impact of adopting this Statement.

In March 2016, GASB issued **Statement No. 82**, **Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73**. The objective of this Statement is to address certain issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The City has not completed the process of evaluating the impact of adopting this Statement.

In November 2016, GASB issued **Statement No. 83**, **Certain Asset Retirement Obligations**. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City has not completed the process of evaluating the impact of adopting this Statement.

In January 2017, GASB issued **Statement No. 84**, **Fiduciary Activities**. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The City has not completed the process of evaluating the impact of adopting this Statement.

# 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 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

### A. City

**City 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 bank balance for City deposits was $621.3 million.

**City Investments**
The City has established a comprehensive investment policy that covers all funds other than the Municipal Pension Fund, Philadelphia Gas Works Retirement Reserve (PGW Pension Fund), and the Fairmount Park and Free Library Trust Funds. Those funds have separate investment policies designed to meet the long-term goals of the fund.

As of June 30, 2016 the total investments of the City, as well as both Pension Trust Funds and the Fairmount Park and Free Library Trust Funds, consisted of:

*(amounts in thousands of USD)*

| Classification | City | City Trust Funds | PGW Pension Fund | Municipal Pension Fund | Grand Total |
|---|---|---|---|---|---|
| Certificate of Deposit | $ 2,500 | $ - | $ - | $ - | $ 2,500 |
| State of PA - Invest Program | 877 | - | - | - | 877 |
| Short-Term Investment Pools | 105,915 | - | 16,976 | 145,697 | 268,588 |
| Commercial Paper | 342,231 | - | - | - | 342,231 |
| U.S. Government Securities | 629,212 | 1 | 35,965 | 174,836 | 840,014 |
| U.S. Government Agency Securities | 540,649 | - | 19,659 | 40,428 | 600,736 |
| Municipal Debt | - | - | 4,038 | 7,404 | 11,442 |
| Foreign Debt | - | - | 5,815 | 130,923 | 136,738 |
| Corporate Bonds | 189,108 | - | 46,428 | 304,026 | 539,562 |
| Collateralized Debt Obligations | - | - | 42,851 | 115,240 | 158,091 |
| Other Bonds and Investments | - | 3,955 | 35 | - | 3,990 |
| Corporate Equities | - | 2,859 | 315,661 | 2,257,989 | 2,576,509 |
| Limited Partnerships | - | - | - | 412,840 | 412,840 |
| Hedge Funds | - | - | - | 86,390 | 86,390 |
| Real Estate | - | - | - | 229,875 | 229,875 |
| Private Equity | - | - | - | 437,908 | 437,908 |
| Grand Total | $ 1,810,492 | $ 6,815 | $ 487,428 | $ 4,343,555 | $ 6,648,291 |

The City's investments include all operating, capital, debt service and debt service reserve accounts of the City's General Fund, Water Department and Aviation Division. All City investments must be in compliance with applicable provisions of the City Code and City bond resolutions, as well as the City's Investment Policy. The City's Investment Policy is meant to supplement the applicable provisions of the City Code and City bond resolutions, and is reviewed and adopted by the City's Investment Committee. The City's Investment Committee consists of the Director of Finance, the City Treasurer, a representative from the Water Department, Aviation Division, and the Philadelphia Gas Works.

**City Investments - Credit Risk**

*Credit Risk:*
The City's policy to limit credit risks by limiting the type of allowable investment, as well as the maximum percent of the portfolio for each type of investment.

The City's investment in US Government securities (34.75%) or US Government Agency obligations (29.86%) are allowable investments up to 100% of the portfolio. The US Government Agency obligations must be rated AAA by Standard & Poor's Corp. (S&P) or Aaa by Moody's Investor Services. All US Government Securities meet the criteria.

The City's investment in Commercial paper (18.90%) is limited to 25% of the portfolio, and must be rated A1 by 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. All commercial paper investments meet the criteria.

The City's investment in corporate bonds (10.45%) are limited to 25% of the portfolio, and had a S&P rating of AAA to AA or Moody's rating of Aa2 or better.

Short Term Investment Pools are rated AAA by S&P and Aaa by Moody's Investor Services. The Short Term Investment Pools' amortized cost-based net asset value per share/unit is the same as the value of the pool shares. Cash accounts are swept nightly and idle cash invested in money market funds (short term investment pools).

The City limits its foreign currency risk by investing in certificates of deposit and banker's 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.

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.

**City Investments - Interest Rate Risk**

*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 fixed income investments to maturities of no longer than 2 years, except in Sinking Fund Reserve Portfolios.

(amounts in thousands of USD)

| Classifications | Less than 6 months | 7 to 12 months | 13 to 18 months | 19 to 24 months | Greater than 24 months | Total |
|---|---|---|---|---|---|---|
| Certificate of Deposit | 2,500 | - | - | - | - | 2,500 |
| Commercial Paper | 312,600 | 29,631 | - | - | - | 342,231 |
| U.S. Government Security | 123,191 | 202,396 | 276,518 | 27,107 | - | 629,212 |
| U.S. Government Agency Securities | 133,482 | 228,185 | 85,632 | 70,551 | 22,800 | 540,649 |
| Corporate Bonds | 26,731 | 100,362 | 28,813 | 33,201 | - | 189,108 |
| Grand Total | 598,504 | 560,574 | 390,963 | 130,859 | 22,800 | 1,703,700 |

**City Investments – Fair Value Measurement**

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability
- Level 3: Unobservable inputs for assets or liabilities

The City has the following recurring fair value measurements as of June 30, 2016:

- U.S. Treasury securities of $629.2 million are valued using quoted prices from active markets (Level 1)
- U.S Agency securities of $540.6 million are valued using quoted prices for identical securities traded in active markets when sufficient activity exists (Level 2)
- Corporate bond securities of $189.1 million are valued using quoted prices for similar securities in active markets and via matrix pricing models (Level 2)
- Commercial paper securities of $342.2 million are valued using quoted prices for identical securities in markets that are not active and via matrix pricing models (Level 2)

The City's certificate of deposit of $2.5 million is valued at cost.

The City's money market and short term investment pools of $106.8 million are valued at the published amortized cost-based net asset value per share/unit for each fund. There are no limitations or restrictions on withdrawals.

**Municipal Pension Fund**

See Footnote IV. 1. PENSION PLANS A. (1) e. Cash Deposits, Investments and Securities Lending

**Philadelphia Gas Works Retirement Reserve (PGWRR)**

See Footnote IV. 1. PENSION PLANS A. (2) c. Summary of Significant Accounting Policies and Plan Asset Matters

**B. Blended Component Units**

**1) 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 h aving 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, 2016 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 $106.1 million. Statement balances were insured or collateralized as follows:

| | (Millions of USD) |
|---|---|
| Insured | 5.9 |
| Uninsured and uncollateralized | 100.2 |
| Total: | $ 106.1 |

**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. U.S. Government agency investments with a remaining maturity of one year or less are classified as short-term investments.

All of the Authority's investments are category (1) credit risk. Credit risk categories are defined as follows:

- Insured or registered securities held by the entity or its agent (bank trust department) in the entity's name.
- Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent in the entity's name.
- Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the entity's name.

The following table summarizes the investments within the fair value hierarchy at June 30, 2016:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| **Investments by fair value level** | Level 1 | Level 2 | Level 3 | Totals |
| Cash & Cash Equivalents | 29,177,907 | | | 29,177,907 |
| U.S. Agencies | 18,228,379 | | | 18,228,379 |
| Municipal/Public Bonds | | 48,759,652 | | 48,759,652 |
| Bond Mutual Funds | 9,932,927 | | | 9,932,927 |
| Total | $57,339,213 | $48,759,652 | | 106,098,865 |

**Fair Value of Investments**: Investments and derivatives are recorded at fair value as of June 30, 2016. GASB Statement No. 72 – Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset (or liability), either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset (or liability) and may require a degree of professional judgment.

**Investment Derivative Instruments**

As of June 30, 2016, PICA's basis caps did not meet the criteria for effectiveness as a hedging instrument. Therefore, they are reported as investment derivative instruments.

| | Changes in Fair Value | | Fair Value as of June 30, 2016 | | |
|---|---|---|---|---|---|
| Government Activities | Classification | Amount | Classification | Amount | Notional Amount |
| 2003 Basis Cap | Investment Income | 8,523 | Investment | 739,200 | 68,575,000 |
| 1999 Basis Cap | Investment Income | 21,660 | Investment | 1,831,833 | 144,035,000 |

**PICA Series of 2003 and 1999 Basis Cap Agreements**

**PICA** entered into two basis cap transactions with JPMorgan Chase Bank, one in June 2003 related to the 2003 swap and one in April 2004 related to the 1999 swaption. For the 2003 basis cap transaction, beginning June 15, 2003, the counterparty pays the Authority a fixed rate each month of .40% per year and the Authority will pay the counterparty a variable rate based on the greater of (a) the average of SIFMA for the month divided by 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 amount and term of the agreement equals the notional amount and term of the 2003 interest rate swap noted above.

For the 1999 basis cap transaction, beginning June 15, 2009, the counterparty will pay the Authority a fixed-rate each month of .46% per year and the Authority will pay the counterparty a variable rate based on the greater of (a) the average of SIFMA for the month divided by one-month LIBOR, less 70%, multiplied by one-month LIBOR, times the notional amount times the day count fraction or (b) zero. The notional amount and term of this agreement equals the notional amount and term of the 1999 interest rate swaption noted above. The objective of each basis cap is to generate income. If the ratio of SIFMA/LIBOR rises sharply, the anticipated benefit might not be realized.

*Fair value*: As of June 30, 2016, the 2003 Basis Cap had a positive fair value of $739,200. This means that **PICA** would receive this amount to terminate the 2003 basis cap. As of June 30, 2016, the 1999 Basis Cap had a positive fair value of $1,831,833. This means that **PICA** would receive this amount to terminate the 1999 basis cap. The fair values of the swaps were measured using the zero coupon discount method and are categorized within Level 2 of the fair value hierarchy.

*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.

**2) 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 | $ 28,167 | $ 28,167 |
| | $ 28,167 | $ 28,167 |

The Authority does not have a formally adopted investment policy related to credit risk, but generally follows the practices of the City. Investments in money market funds were not rated. Depository cash accounts consisted of $291,370 on deposit with two local banks. Amounts are insured by the FDIC up to $250,000 per bank. 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. As of June 30, 2016, the Authority did not have any uninsured deposits on hand.

**Fair Value Measurement:** Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of a fair value measurement in both cases is the same that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The Authority's investments qualify as Level 1 investments.

### C. Discretely Presented Component Units

#### 1. Philadelphia Authority for Industrial Development Basis Swap

As of June 30, 2016, **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)

| | Changes in Fair Value | | Fair Value at June 30. 2016 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| **Governmental activities** | | | | | |
| **Investment derivatives:** | | | | | |
| **Basis Swap** | Investment Revenue | 1,546 | Investment | (516) | 193,520 |

*Objective:* **PAID** entered into a basis swap that became effective on July 1, 2004, that provided **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 received 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, 2016, the notional amount on the portion of the swap that was not amended was $193.5 million.

*Fair Value:* As of June 30, 2016, the swap had a negative fair value of ($515,877). The fair value reflects the effect of non-performance risk, which includes the credit risk. This means that **PAID** would have to pay this amount to terminate the swap. The fair value of the swap was measured using the income approach and is categorized within Level 2 of the fair value hierarchy.

*Risks:* As of June 30, 2016, **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.

**2. School District of Philadelphia Basis Swaps**

**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 values take 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. Fair values reflect the effect of non-performance risk, which includes the School District's credit risk.

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, 2016 along with the counterparties and their credit ratings.

| Associated Bonds | Initial Notational | Current Notational | 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 | 11/30/2006 | 5/15/2033 | SIFMA Swap67% of USD-LIBOR Index | +.2788% | ($199,210) | Wells Fargo Bank, N.A. | Aa2/AA-/AA |
| Series 2003 School Lease Revenue Bonds | $350,000,000 | $350,000,000 | 11/30/2006 | 5/15/2033 | SIFMA Swap67% of USD-LIBOR Index | +.2788% | ($464,823) | JPMorgan Chase Bank, N.A. | Aa3/A+/AA- |
| | | | | | | | ($664,033) | | |

*Basis risk/Interest rate 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, 2016, the net benefit to the School District has been $15,079,433

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, 2016, 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 swaps become positive, the School District would be exposed to credit risk.

The basis swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

*Termination risk:* Only the School District may terminate the two existing 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 swap's fair value.

## 2. SECURITIES LENDING

A. GOVERNMENTAL FUNDS:

The City Treasurer is prohibited from lending or selling city-owned securities with an agreement to buy them back after a stated period of time (City of Philadelphia - Investment Policy Section VI. Investment Restrictions)

B. PENSION TRUST FUNDS:

1) City Plan (Municipal Pension Fund):
The Board of Directors of the Municipal Pension Fund has authorized management of the Fund to participate in securities lending transactions.

See Footnote IV. 1. PENSION PLANS A. (1) e. Cash Deposits, Investments and Securities Lending

2) Philadelphia Gas Works (PGW) Plan

The Board of Directors of the Sinking Fund Commission on behalf of Philadelphia Gas Works Retirement Reserve Fund ("PGWRR") has authorized the management of these funds to participate in securities lending transactions.

As of June 1, 2014, the Plan no longer participates in a securities lending program. In December 2011, Wells Fargo, the custodian of the Plan, with the written consent of the Plan, assigned the securities lending program to Citibank. The agreement between the parties gave both parties the right to terminate the arrangement with at least 15 days' notice. On May 9, 2014, Citibank gave written communication to the Plan that they wished to terminate the arrangement effective June 1, 2014.

## 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 and series 2014A, **PAID'**s Cultural & Commercial Corri-dor Lease Revenue Bonds Series 2006, **PAID** City Service Agreement Refunding Revenue Series Bond 2012, **PAID**'s City Service Agreement Series 2014A for the Philadelphia School District, **PAID**'s City Agreement - Cultural & Commercial Corridor Program - Revenue Refunding Series Bond 2016A, and **PAID**'s City Agreement – Philadelphia Central Library Project - Revenue Refunding Series Bond 2016B.

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 |
| Grants Revenue Fund | 41,912 | - | - | - | 41,912 |
| Non major Special Revenue Funds | 10,271 | 39 | - | - | 10,310 |
| **Total** | **52,183** | **39** | **-** | **699** | **52,921** |

### 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 | PAID | PGW | PPA | Timing Difference | Total |
| **Payables Due From:** | | | | | | | | | |
| General Fund | - | - | - | - | - | 82 | 3 | - | 85 |
| Behavioral Health | - | - | 38,342 | - | - | - | - | - | 38,342 |
| Grants Revenue | - | - | 414 | 3,527 | - | - | - | - | 3,941 |
| Community Dev. | - | - | - | 5,037 | - | - | - | - | 5,037 |
| Water Fund | - | - | - | 155 | 784 | - | 9 | (30) | 918 |
| PPA | 11,764 | 26,717 | - | - | - | - | - | (5,554) | 32,927 |
| PAID | 37,751 | - | - | - | - | - | - | (37,751) | - |
| PRA | - | - | - | - | - | - | - | 1,500 | 1,500 |
| Timing Difference | - | (26,717) | 36,228 | 2,338 | 14,053 | (82) | (12) | - | 25,808 |
| | | | | | | | | | - |
| **Total** | 49,515 | - | 74,984 | 11,057 | 14,837 | - | - | (41,835) | 108,558 |

## 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 | 818 | 11 | - | 829 |
| Fine Arts | 1 | - | - | 1 |
| Construction In Process | 36 | 16 | (9) | 43 |
| Total capital assets not being depreciated | 855 | 27 | (9) | 873 |
| Capital assets being depreciated: | | | | |
| Buildings | 2,123 | 36 | - | 2,159 |
| Other Improvements | 339 | 9 | - | 348 |
| Equipment | 494 | 45 | (24) | 515 |
| Infrastructure | 1,576 | 93 | - | 1,669 |
| Intangibles | 13 | 9 | - | 22 |
| Transit | 292 | - | - | 292 |
| Total capital assets being depreciated | 4,837 | 192 | (24) | 5,005 |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,388) | (63) | - | (1,451) |
| Other Improvements | (244) | (9) | - | (253) |
| Equipment | (384) | (27) | 20 | (391) |
| Infrastructure | (1,132) | (42) | - | (1,174) |
| Intangibles | (1) | (2) | - | (3) |
| Transit | (229) | (4) | - | (233) |
| Total accumulated depreciation | (3,378) | (147) | 20 | (3,505) |
| Total capital assets being depreciated, net | 1,459 | 45 | (4) | 1,500 |
| Governmental activities capital assets, net | 2,314 | 72 | (13) | 2,373 |

* Note that the beginning balances of the accumulated depreciation for "Other Improvements" and "Equipment" have been adjusted by $18 million. This is due to an error in the prior year table.

*(Amounts In Millions of USD)*

| **Business-type activities:** | **Beginning Balance** | **Increases** | **Decreases** | **Ending Balance** |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | 153 | 3 | - | 156 |
| Construction In Process | 856 | 338 | (467) | 728 |
| Total capital assets not being depreciated | 1,009 | 341 | (467) | 884 |
| Capital assets being depreciated: | | | | |
| Buildings | 3,150 | 251 | (8) | 3,393 |
| Other Improvements | 331 | 19 | - | 350 |
| Equipment | 133 | 26 | (21) | 138 |
| Intangible Assets | 14 | 1 | - | 15 |
| Infrastructure | 3,342 | 232 | (95) | 3,479 |
| Total capital assets being depreciated | 6,970 | 529 | (124) | 7,375 |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,751) | (96) | 5 | (1,842) |
| Other Improvements | (163) | (14) | - | (177) |
| Equipment | (108) | (7) | 2 | (112) |
| Intangible Assets | (8) | (1) | - | (9) |
| Infrastructure | (1,850) | (89) | 42 | (1,897) |
| Total accumulated depreciation | (3,880) | (207) | 49 | (4,038) |
| Total capital assets being depreciated, net | 3,090 | 322 | (75) | 3,338 |
| Business-type activities capital assets, net | 4,099 | 664 | (541) | 4,221 |

Depreciation expense was charged to the programs of the primary government as follows:

*(Amounts in Millions of USD)*

**Governmental Activities:**

| | | |
|---|---|---|
| Economic Development | | 2 |
| Transportation: | | |
| | Streets & Highways | 43 |
| | Mass Transit | 4 |
| Judiciary and Law Enforcement: | | |
| | Police | 11 |
| | Prisons | 6 |
| | Courts | 1 |
| Conservation of Health: | | |
| | Health Services | 3 |
| Housing and Neighborhood | | |
| | Development | 0 |
| Cultural and Recreational: | | |
| | Recreation | 12 |
| | Parks | 11 |
| | Libraries and Museums | 8 |
| Improvements to General Welfare: | | |
| | Social Services | 1 |
| Service to Property: | | |
| | Fire | 7 |
| General Management & Support | | 38 |
| Total Governmental Activities | | 147 |

*(Amounts in Millions of USD)*

| **Business-Type Activities:** | |
|---|---|
| Water and Sewer | 102 |
| Aviation | 102 |
| Total Business Type Activities | 204 |

### 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 | 130.2 | 0.2 | (1.0) | 129.4 |
| (1) Construction In Process | 20.7 | 44.2 | (5.9) | 59.0 |
| Total capital assets not being depreciated | 150.9 | 44.4 | (6.9) | 188.4 |
| Capital assets being depreciated: | | | | |
| Buildings | 1,753.2 | 4.5 | (9.0) | 1,748.7 |
| Other Improvements | 1,221.8 | 17.3 | (15.5) | 1,223.6 |
| Intangible Assets | 50.3 | 3.3 | - | 53.6 |
| (2) (3) Personal Property & Equipment | 241.7 | 21.5 | (29.9) | 233.3 |
| Total capital assets being depreciated | 3,267.0 | 46.6 | (54.4) | 3,259.2 |
| Less accumulated depreciation for: | | | | |
| Buildings | (665.4) | (31.1) | 8.4 | (688.1) |
| Other Improvements | (794.0) | (51.9) | 12.7 | (833.2) |
| Intangible Property | (41.3) | (2.4) | - | (43.7) |
| (2) (3) Personal Property & Equipment | (187.6) | (17.3) | 28.3 | (176.6) |
| Total accumulated depreciation | (1,688.3) | (102.7) | 49.4 | (1,741.6) |
| Total capital assets being depreciated, net | 1,578.7 | (56.1) | (5.0) | 1,517.6 |
| Capital assets, net | 1,729.6 | (11.7) | (11.9) | 1,706.0 |

(1) The beginning balance for CIP was adjusted to reflect a $0.1 million prior period adjustment to include FY 2015 capital grant expenditures.

(2) The beginning balances for Personal Property and related Accumulated Depreciation have been adjusted by ($0.6) million and $0.6 million respectively to reflect the reclassification of Print Shop Personal Property and Accumulated Depreciation from Governmental Activities to Business-Type Activities.

(3) The beginning balances for Machinery & Equipment and related Accumulated Depreciation have been adjusted by $0.8 million and ($0.8) million respectively to reflect re-establishment of items erroneously deleted in Fiscal Year 2015.

(Amounts In Millions of USD)

| **Business-type Activities:** | **Beginning Balance** | **Increases** | **Decreases** | **Ending Balance** |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | 46 | 2 | - | 48 |
| Fine Arts | (9) | - | - | (9) |
| Construction In Process | 91 | 103 | (94) | 100 |
| Total capital assets not being depreciated | 127 | 105 | (94) | 139 |
| Capital assets being depreciated: | | | | |
| Buildings | 710 | 4 | - | 714 |
| Other Improvements | 25 | 1 | (2) | 24 |
| Equipment | 493 | 47 | - | 540 |
| Infrastructure | 1,686 | 73 | (6) | 1,753 |
| Total capital assets being depreciated | 2,914 | 125 | (8) | 3,031 |
| Less accumulated depreciation for: | | | | |
| Buildings | (317) | (16) | - | (333) |
| Other Improvements | (39) | (3) | 1 | (41) |
| Equipment | (209) | (18) | (1) | (228) |
| Infrastructure | (809) | (38) | 5 | (842) |
| Total accumulated depreciation | (1,374) | (75) | 5 | (1,444) |
| Total capital assets being depreciated, net | 1,540 | 50 | (3) | 1,587 |
| Capital assets, net | 1,667 | 155 | (97) | 1,726 |

## 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 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. There were $189.9 million notes outstanding at June 30, 2016.

Pursuant to a contract between the City and the United States Department of Housing and Urban Development (HUD), the City borrows funds through the HUD Section 108 loan program for the purpose of establishing loan pools to finance qualifying businesses and specific development projects. These funds are placed in custodial accounts established by the Philadelphia Industrial Development Corporation (PIDC), as designee of the City, and are being administered on behalf of the City by PIDC. While the City is the primary borrower, PIDC, acting as the City’s designee, makes the repayments on the City’s HUD Section 108 Notes Payable. Loan repayments and investment proceeds from un-loaned funds are used to repay the Notes Payable. If there is a deficiency in these resources, the City authorizes PIDC to use Community Development Block Grant (CDBG) program income funds on hand at PIDC to repay the Notes Payable. From fiscal year 2006 through 2016, $12.8 million of CDBG program income funds had been used to repay the debt. Collateral for repayment of the HUD Section 108 loans includes future CDBG entitlements due to the City from HUD.

Through the end of the fiscal year, HUD had disbursed $262.1 million in loans to PIDC. As of June 30, 2016, there was $80.4 million in outstanding HUD Section 108 Notes Payable. In connection with this Notes Payable, a corresponding receivable due from PIDC has been recorded under Other Assets on the Governmental Activities Statement of Net Position. Scheduled repayments of the HUD Section 108 Notes Payable for the next five years and thereafter as of June 30, 2016 are as follows:

| Calendar Year | Amount |
|---|---|
| 2016 | 10,175,000 |
| 2017 | 10,820,000 |
| 2018 | 11,535,000 |
| 2019 | 3,350,000 |
| 2020 | 6,615,000 |
| Thereafter | 37,893,000 |
| Total | $ 80,388,000 |

**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 was $71.0 million in notes outstanding at year-end (August 31, 2016).

**PPA:**
On January 29, 2015, The Authority borrowed $6,000,000 for the Philadelphia Airport Parking Garage Project in anticipation of a future bond financing. The structure of the loan is a tax-exempt bond anticipation note to be paid over a two year period at a fixed interest rate of 1.017%. The balance of the note payable at March 31, 2016 is $5,400,000.

On March, 31 2016, The Authority borrowed $15,000,000 for the Philadelphia Airport Parking Garage in anticipation of a future bond financing. The structure of the loan is a tax-exempt bond anticipation note to be paid over a two year period at a variable interest rate equal to 67% of 1 month LIBOR Rate plus 0.60% (60 basis points). The balance of the note payable at March 31, 2016 is $15,000,000.

The aggregate annual principal and sinking fund payments of debt at March 31, 2016 are as follows:

**Notes Payable**

| Year Ending March 31 | Revenue Bonds Principal Amount | Revenue Bonds Interest Amount | Principal Amount | Interest Amount | Total |
|---|---|---|---|---|---|
| 2017 | 13,170,000 | 6,790,140 | 2,100,000 | 178,807 | 22,238,947 |
| 2018 | 13,800,000 | 6,129,942 | 18,300,000 | 164,627 | 38,394,569 |
| 2019 | 14,095,000 | 5,475,584 | | | 19,570,584 |
| 2020 | 14,605,000 | 4,801,471 | | | 19,406,471 |
| 2021 | 15,210,000 | 4,070,640 | | | 19,280,640 |
| 2022-2026 | 56,485,000 | 13,452,522 | | | 69,937,522 |
| 2027-2030 | 19,590,000 | 3,213,229 | | | 22,803,229 |
| Total | 146,955,000 | 43,933,528 | 20,400,000 | 343,434 | 211,631,962 |

## 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, 2016 the statutory limit for the City is $5.4 billion, the General Obligation Debt, net of deductions authorized by law, is $1.8 billion; leaving a legal debt borrowing capacity of $3.6 billion. Termination Compensation costs and Worker's Compensation claims are paid by whichever governmental fund incurs them. Indemnity claims are typically paid by the General Fund.

The following schedule reflects the changes in long-term liabilities for the fiscal year:

**Long Term Debt Governmental Changes - Primary Government**

*(Amounts In Millions of USD)*

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activity** | | | | | |
| Bonds Payable | | | | | |
| Term Bonds | 681.7 | 28.6 | (95.5) | 614.8 | 72.8 |
| Refunding Bonds | 868.3 | 138.8 | (163.4) | 843.7 | 43.2 |
| Serial Bonds | 382.5 | 163.0 | (15.2) | 530.3 | 24.7 |
| Add: Bond Premium | 111.8 | 53.9 | (26.8) | 138.9 | - |
| Less: Deferred Amounts | | | | | |
| Unamortized Insurance Expenses | (14.8) | - | 2.2 | (12.6) | - |
| Unamortized Discount | (1.8) | - | 0.1 | (1.7) | - |
| Total Bonds Payable | 2,027.7 | 384.3 | (298.6) | 2,113.4 | 140.7 |
| Obligations Under Lease & Service Agreements | | | | | |
| Pension Service Agreement | 1,063.3 | 39.1 | (104.9) | 997.5 | 104.9 |
| Neighborhood Transformation | 190.7 | - | (8.3) | 182.4 | 7.7 |
| One Parkway | 37.0 | - | (2.4) | 34.6 | 2.5 |
| Sports Stadium | 290.0 | - | (13.5) | 276.5 | 13.7 |
| Library | 6.7 | 6.2 | (6.7) | 6.2 | 0.6 |
| Cultural Corridor Bonds | 108.0 | 89.2 | (103.6) | 93.6 | 4.4 |
| City Service Agreement | 299.8 | - | - | 299.8 | - |
| PAID School District | 43.3 | - | (14.2) | 29.1 | 14.4 |
| Total Obligations Under Lease & Service Agreements | 2,038.8 | 134.5 | (253.6) | 1,919.7 | 148.2 |
| Other Long-term Liabilities | | | | | |
| Indemnity Claims | 74.0 | 143.9 | (147.5) | 70.4 | 18.9 |
| Worker's Compensation Claims | 247.3 | 57.2 | (60.2) | 244.3 | - |
| Termination Compensation Payable | 212.2 | 53.5 | (22.0) | 243.7 | 31.5 |
| Leases | 12.9 | - | (4.2) | 8.7 | 4.3 |
| Total Other Long-term Liabilities | 546.4 | 254.6 | (233.9) | 567.1 | 54.7 |
| Net Pension and OPEB Liability | | | | | |
| Net Pension Liability | 5,125.3 | 486.6 | - | 5,611.9 | - |
| OPEB Liability | 266.3 | 30.2 | | 296.5 | - |
| Total Net Pension and OPEB Liability | 5,391.6 | 516.8 | - | 5,908.4 | - |
| Governmental Activity Long-term Liabilities | 10,004.5 | 1,290.2 | (786.1) | 10,508.6 | 343.6 |

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 | 3.000 | % | to | 6.500 | % | 1,505.6 | Fiscal | 2017 | to | 2042 |
| PMA | 1.250 | % | to | 6.660 | % | 217.1 | Fiscal | 2017 | to | 2044 |
| PICA | 4.000 | % | to | 5.000 | % | 266.1 | Fiscal | 2017 | to | 2023 |
| | | | | | | 1,988.8 | | | | |

- In July 2015, the City issued $138.8 million of General Obligation Refunding Bonds Series 2015A. The total proceeds were $157.0 million (including a premium of $18.2 million). The proceeds of the sale were used to refund the Series 2006, 2008B, and 2011 bonds. The interest rates of the the Bonds that were refunded ranged from 4.75% to 5.875%. The interest rates of the newly issued bonds ranged from 4% to 5%. The transaction resulted in a total savings to the City of $15.6 million over the next 17 years. The difference between the present value of the debt service payments on the old debt versus the new debt (economic gain) was $13.1 million.

- In September 2015, the City issued $191.6 million of General Obligation Bonds Series 2015B. The 2015B bonds were issued for the purpose of funding the City's capital projects and paying the costs relating to the issuance of the 2015B bonds. The total proceeds of the bonds were $211.3 million (which includes a premium of $19.7 million). The interest rates for the bonds range from 2.0% to 5.0%.

- In February 2016, PAID issued $95.4 million of City Service Agreement Revenue Refunding Bonds Series 2016A and 2016B.

    a. The total proceeds of the 2016A bonds were $104.6 million (which includes a premium of $15.4 million). The 2016A Bonds were issued to partially refund $99.5 million of the Series 2006A Bonds and to pay the costs of issuing the 2016A Bonds. The interest rates for the 2016A Bonds range from 4.0% to 5.0%. The interest rates of the refunded bonds range from 4.0% to 5.0%. The transaction resulted in a total savings to the City of $13.31 million over the next 16 years. The economic gain on the transaction was $10.10 million, calculated on a present value basis.

    b. The total proceeds of the 2016B bonds were $6.8 million (which includes a premium of $0.6 million). The 2016B Bonds were issued to refund $6.7 million of the Series 2005 Bonds and to pay the costs of issuing the 2016B Bonds. The interest rates for the 2016B Bonds range from 3.0% to 4.0%. The interest rates of the refunded bonds range from 3.8% to 4.3%. The transaction resulted in a total savings to the City of $0.8 million over the next 9 years. The economic gain on the transaction was $0.7 million, calculated on a present value basis.

- The City has General Obligation Bonds authorized and un-issued at year-end of $385.7 million for Governmental Funds.

The debt service through maturity for the Governmental GO Debt is as follows:

(Amounts In Millions of USD)

| Fiscal | City Fund | | Blended Component Units | | | |
|---|---|---|---|---|---|---|
| | General Fund | | PMA | | PICA | |
| Year | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | 67.9 | 74.2 | 20.7 | 11.0 | 52.1 | 13.3 |
| 2018 | 70.8 | 70.8 | 28.0 | 9.8 | 45.4 | 10.7 |
| 2019 | 74.3 | 67.2 | 13.4 | 8.9 | 38.8 | 8.4 |
| 2020 | 76.6 | 63.5 | 4.4 | 8.4 | 40.5 | 6.4 |
| 2021 | 69.9 | 59.9 | 4.7 | 8.2 | 32.9 | 4.4 |
| 2022-2026 | 400.8 | 241.6 | 27.3 | 36.9 | 56.4 | 3.9 |
| 2027-2031 | 411.8 | 137.7 | 32.1 | 28.6 | - | - |
| 2032-2036 | 251.2 | 48.2 | 39.2 | 19.3 | - | - |
| 2037-2041 | 72.6 | 12.5 | 36.1 | 7.1 | - | - |
| 2042-2046 | 9.7 | 0.3 | 11.2 | 0.9 | - | - |
| Totals | 1,505.6 | 775.9 | 217.1 | 139.1 | 266.1 | 47.1 |

The debt service through maturity for Lease and Service Agreements is as follows:

(Amounts In Millions of USD)

**Lease & Service Agreements**

| Fiscal | Pension Service Agreement | | Neighborhood Transformation | | One Parkway | | Sports Stadium | |
|---|---|---|---|---|---|---|---|---|
| Year | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | 99.7 | 35.0 | 7.7 | 9.1 | 2.5 | 1.6 | 13.7 | 11.2 |
| 2018 | 93.4 | 41.3 | 8.1 | 8.7 | 2.6 | 1.5 | 14.1 | 10.7 |
| 2019 | 87.5 | 47.3 | 9.8 | 8.3 | 2.7 | 1.4 | 14.5 | 10.0 |
| 2020 | 81.9 | 52.8 | 10.3 | 7.8 | 2.8 | 1.2 | 15.3 | 9.3 |
| 2021 | 51.2 | 48.6 | 10.8 | 7.3 | 3.0 | 1.1 | 16.0 | 8.7 |
| 2022-2026 | 137.8 | 222.6 | 58.7 | 28.3 | 17.1 | 3.4 | 90.9 | 32.8 |
| 2027-2031 | 446.0 | 58.1 | 77.0 | 11.9 | 3.9 | 0.2 | 112.0 | 11.9 |
| 2032-2036 | - | - | - | - | - | - | - | - |
| Totals | 997.5 | 505.7 | 182.4 | 81.4 | 34.6 | 10.4 | 276.5 | 94.6 |

| Fiscal | Central Library | | Cultural Corridors | | City Service Ageement | | PAID School District | |
|---|---|---|---|---|---|---|---|---|
| Year | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | 0.6 | 0.3 | 4.4 | 6.1 | - | 11.7 | 14.4 | 0.5 |
| 2018 | 0.6 | 0.2 | 4.2 | 4.2 | - | 11.7 | 14.7 | 0.3 |
| 2019 | 0.6 | 0.2 | 4.4 | 4.1 | - | 11.8 | - | - |
| 2020 | 0.7 | 0.2 | 4.5 | 3.9 | - | 11.8 | - | - |
| 2021 | 0.7 | 0.1 | 4.7 | 3.7 | 23.2 | 11.8 | - | - |
| 2022-2026 | 3.0 | 0.2 | 27.7 | 14.5 | 276.6 | 36.6 | - | - |
| 2027-2031 | - | - | 35.5 | 6.7 | - | - | - | - |
| 2032-2036 | - | - | 8.2 | 0.2 | - | - | - | - |
| Totals | 6.2 | 1.2 | 93.6 | 43.4 | 299.8 | 95.4 | 29.1 | 0.8 |

### (2) Business Type Debt Payable

The following schedule reflects changes in long-term liabilities for Business-Type Activities for the fiscal year:

**Long Term Debt Business Changes - Business Type** (Amounts In Millions of USD)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | | | | | |
| Revenue Bonds | 3,185.1 | 103.6 | (303.7) | 2,985.0 | 187.9 |
| Add: Bond Premium | 151.0 | 10.5 | (18.5) | 143.0 | - |
| Total Bonds Payable | 3,336.1 | 114.1 | (322.2) | 3,128.0 | 187.9 |
| Indemnity Claims | 4.7 | 10.5 | (6.7) | 8.5 | - |
| Worker's Compensation Claims | 27.5 | 4.7 | (5.1) | 27.1 | - |
| Termination Compensation Payable | 17.7 | 4.6 | (3.0) | 19.3 | - |
| Arbitrage | 0.3 | - | (0.3) | - | - |
| Business-type Activity Long-term Liabilities | 3,386.3 | 133.9 | (337.3) | 3,182.9 | 187.9 |
| **Other long term liabilities reported on separate line in Exhibit I** | | | | | |
| Net Pension Liability | 618.9 | 59.7 | - | 678.6 | - |
| Total | 4,005.2 | 193.6 | (337.3) | 3,861.5 | 187.9 |

The Enterprise Funds have no debt that is classified on their respective balance sheets as General Obligation debt payable as of June 30, 2016.

Also, the City has General Obligation Bonds authorized and un-issued at year-end of $303.6 million. This includes $211.6 million for the Enterprise Funds and $92 million for **PGW**.

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 | 0.060 % | to | 5.750 % | 1,860.3 | Fiscal | 2017 | to | 2046 |
| Aviation Fund | 2.000 % | to | 5.375 % | 1,124.7 | Fiscal | 2017 | to | 2040 |
| Total Revenue Debt Payable | | | | 2,985.0 | | | | |

- In September 2015, the City issued $97.8 million of Airport Revenue Bonds Series 2015A Bonds to refund all of the outstanding Series 2005A Bonds in the amount of $105.9 million and to pay the costs of issuing the Series 2015A Bonds. The total proceeds of the 2015A Bonds were $108.2 million (which includes a premium of $10.5 million). The interest rates of the bonds that were refunded ranged from 4.2% to 5.0%. The interest rates of the newly issued bonds range 4% to 5%. The transaction resulted in a total savings to the City of $12.9 million over the next 20 years The economic gain was $9.3 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 2016, PENNVEST draw-downs totaled $5.8 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 is 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 | Amount Received Through 6/30/2016 | Current Balance Outstanding 6/30/2016 | Purpose |
|---|---|---|---|---|---|
| Oct. 2009 | 2009B | 42,886,030 | 29,432,930 | 21,464,949 | Water Plant Improvements |
| Oct. 2009 | 2009C | 57,268,193 | 46,699,887 | 35,528,947 | Water Main Replacements |
| Mar. 2010 | 2009D | 84,759,263 | 71,956,891 | 56,396,744 | Sewer Projects |
| Jul. 2010 | 2010B | 30,000,000 | 28,500,000 | 25,101,563 | Green Infrastructure Project |
| | Totals: | 214,913,486 | 176,589,708 | 138,492,203 | |

The debt service through maturity for the Revenue Debt Payable is as follows:

(Amounts In Millions of USD)

| Water Fund | | Aviation Fund | |
|---|---|---|---|
| **Principal** | **Interest** | **Principal** | **Interest** |
| 124.8 | 81.4 | 63.2 | 55.4 |
| 131.4 | 76.6 | 65.6 | 52.1 |
| 86.7 | 72.1 | 59.6 | 48.7 |
| 79.5 | 68.4 | 62.7 | 45.6 |
| 83.4 | 65.0 | 65.9 | 42.5 |
| 338.7 | 276.6 | 364.6 | 162.9 |
| 300.9 | 212.8 | 223.4 | 82.6 |
| 238.5 | 148.9 | 142.3 | 40.8 |
| 257.2 | 92.5 | 77.4 | 9.0 |
| 219.2 | 25.1 | | |
| 1,860.3 | 1,119.4 | 1,124.7 | 539.6 |

### (3) Defeased Debt

As of the current fiscal year-end, the City 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)* |
|---|---|
| **Governmental Funds:** | |
| General Obligation Bonds | 288.3 |
| **Enterprise Funds:** | |
| Water Fund Revenue Bonds | 70.3 |
| | 358.5 |

### (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 $175 million in Tax Revenue Anticipation Notes by June 2016 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, 2015 | - |
| Additions | 175.0 |
| Deletions | (175.0) |
| Balance June 30, 2016 | - |

### (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, 2016, the Aviation Fund had recorded liabilities of $546.08

### (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, 2016, classified by type, and the changes in fair value of such derivatives are as follows:

(amounts in thousands)

| | Changes in Fair Value | | Fair Value at June 30, 2016 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| **Governmental Activities** | | | | | |
| Cash Flow Hedges: | | | | | |
| Pay fixed interest rate swaps | Deferred Outflow | (10,247) | Debt | (32,125) | 100,000 |
| | Deferred Outflow | (5,271) | Debt | (22,826) | 87,759 |
| | Deferred Outflow | (1,756) | Debt | (7,607) | 29,246 |
| | Deferred Outflow | (5,029) | Debt | (21,616) | 87,961 |
| | Deferred Outflow | (1,675) | Debt | (7,235) | 29,314 |
| **Business Type Activities:** | | | | | |
| Cash Flow Hedges: | | | | | |
| Pay fixed interest rate swaps | Deferred Outflow | 186 | Debt | (16,039) | 121,400 |
| | Deferred Outflow | 1,781 | Debt | (1,508) | 35,325 |
| | Deferred Outflow | (9,461) | Debt | (50,611) | 225,520 |

The following table displays the objective and terms of the City's hedging derivative instruments outstanding at June 30, 2016, 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 | 87,759 | 10/25/2007 | 10/1/2030 | City pays 3.9713%; receives SIFMA Municipal Swap Index | Aa3/A+ |
| City Lease PAID (e) | Pay Fixed Interest Rate Swap | Hedge changes in cash flow on the 2014 Series A bonds | 87,961 | 5/14/2014 | 10/1/2030 | City pays 3.62%; receives 70% 1M LIBOR | Aa3/A+ |
| City Lease PAID (b) | Pay Fixed Interest Rate Swap | Hedge changes in cash flow on the 2007 Series B bonds | 29,246 | 10/25/2007 | 10/1/2030 | City pays 3.9713%; receives SIFMA Municipal Swap Index | Baa2/A- |
| City Lease PAID (e) | Pay Fixed Interest Rate Swap | Hedge changes in cash flow on the 2014 Series A bonds | 29,314 | 5/14/2014 | 10/1/2030 | City pays 3.62%; receives 70% 1M LIBOR | Aa3/A+ |
| Airport '(c) | Pay Fixed Interest Rate Swap | Hedge changes in cash flow on the 2005 Series C bonds | 121,400 | 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 | 35,325 | 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, 2016, 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, 2016, the swap had a negative fair value of ($29.93 million). The fair value reflects the effect of non-performance risk, which includes the credit risk. This means that the City would have to pay this amount to terminate the swap. The fair value of the swap was measured using the income approach and is categorized within Level 2 of the fair value hierarchy.

*Risk:* As of June 30, 2016, 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, 2016 the rates were:

| Term | Rates | | |
|---|---|---|---|
| Interest Rate Swap | | | |
| Fixed payment to RBC under swap | Fixed | 3.82900 | % |
| Variable rate payment from RBC under swap | SIFMA | (0.41000) | % |
| Net interest rate swap payments | | 3.41900 | % |
| Variable rate bond coupon payments | Weekly reset | 0.42000 | % |
| Synthetic interest rate on bonds | | 3.83900 | % |

*Swap payments and associated debt:* As of June 30, 2016, 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 | Interest | Interest Rate Swaps Net | Total Interest |
|---|---|---|---|---|
| 2017 | - | 420,000 | 3,419,000 | 3,839,000 |
| 2018 | - | 420,000 | 3,419,000 | 3,839,000 |
| 2019 | - | 420,000 | 3,419,000 | 3,839,000 |
| 2020 | - | 420,000 | 3,419,000 | 3,839,000 |
| 2021 | - | 420,000 | 3,419,000 | 3,839,000 |
| 2022-2026 | - | 2,100,000 | 17,095,000 | 19,195,000 |
| 2027-2031 | 81,585,000 | 1,506,561 | 12,264,124 | 13,770,685 |
| 2032 | 18,415,000 | 77,343 | 629,609 | 706,952 |
| Total: | 100,000,000 | 5,783,904 | 47,083,733 | 52,867,637 |

**b. Philadelphia Authority for Industrial Development (PAID) 2007B and 2014A 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.

In May 2014, PAID fully refunded the 2007B-1 bonds with the 2014A bonds, a directly purchased note. The 2014As pay interest on a LIBOR-linked index. Concurrently, the two swaps were amended such that the floating rate index on the portions allocable to the 2007B-1 bonds were converted from SIFMA to the same LIBOR-based index as the 2014A bonds. One of the LIBOR-based swaps, with a notional amount of $87.96 million, was documented under a separate trade confirmation with JP Morgan Chase Bank. The other LIBOR-based swap, with a notional amount of $29.31 million, was documented under a separate trade confirmation with Merrill Lynch Capital Services, Inc. Under the LIBOR-based swaps, PAID pays a fixed rate of 3.62% and 3.632% (to JPMorgan and Merrill Lynch, respectively), and receives 70% of 1-month LIBOR. The payments are based on an amortizing notional schedule.

In July 2014, PAID refunded the 2007B-4 bonds, and terminated the allocable portions of the SIFMA-based swaps. PAID terminated $41.56 million of notional of the JP Morgan SIFMA-based swap and $13.84 million of notional of the Merrill Lynch SIFMA-based swap, representing the 2015-2018 maturities of each, and paid a total termination payment of $5.56 million. Costs to finance this termination payment were more than offset by refunding savings generated on the bonds, so the City will receive positive cash-flow savings from the transaction in every fiscal year that the bonds are outstanding.

As of June 30, 2016, the swaps together had a notional amount of $234.3 million which matched the principal amount of the associated variable rate bond deals. Payments under these swaps are lease rental obligations of the City.

*Fair Value*: As of June 30, 2016, the SIFMA-based swap with JP Morgan Chase Bank had a negative fair value of ($21.70 million), the SIFMA-based swap with Merrill Lynch Capital Services, Inc. had a negative fair value of ($7.23 million), the LIBOR-based swap with JP Morgan Chase Bank had a negative fair value of ($20.53 million) and the LIBOR-based swap with Merrill Lynch Capital Services had a negative fair value of ($6.87 million). This means that **PAID** would have to pay these amounts to terminate the swaps. The fair values reflect the effect of non-performance risk, which includes the credit risk. The fair values of the swaps were measured using the income approach and are categorized within Level 2 of the fair value hierarchy.

*Risks:* As of June 30, 2016, **PAID** was 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, **PAID** would be exposed to credit risk in the amount of the swaps' fair value. The City is subject to traditional basis risk on the SIFMA-based swaps 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, 2016, the rates for the JP Morgan SIFMA-based swap were:

| Term | Rates | | |
|---|---|---|---|
| Interest Rate Swap | | | |
| Fixed payment to JP Morgan under swap | Fixed | 3.97130 | % |
| Variable rate payment from JP Morgan under swap | SIFMA | (0.41000) | % |
| Net interest rate swap payments | | 3.56130 | % |
| Variable rate bond coupon payments | Weighted Average Weekly resets | 0.40762 | % |
| Synthetic interest rate on bonds | | 3.96892 | % |

As of June 30, 2016, the rates for the Merrill Lynch SIFMA-based swap were:

| Term | Rates | | |
|---|---|---|---|
| Interest Rate Swap | | | |
| Fixed payment to JP Morgan under swap | Fixed | 3.97130 | % |
| Variable rate payment from JP Morgan under swap | SIFMA | (0.41000) | % |
| Net interest rate swap payments | | 3.56130 | % |
| Variable rate bond coupon payments | Weighted Average Weekly resets | 0.40762 | % |
| Synthetic interest rate on bonds | | 3.96892 | % |

As of June 30, 2016, the rates for the JP Morgan Libor-based swap were:

| Term | Rates | | |
|---|---|---|---|
| Interest Rate Swap | | | |
| Fixed payment to JP Morgan under swap | Fixed | 3.62000 | % |
| Variable rate payment from JP Morgan under swap | 70% of 1-month LIBOR | (0.32554) | % |
| Net interest rate swap payments | | 3.29447 | % |
| Variable rate bond coupon payments | 70% of 1-month LIBOR + fixed spread | 0.32554 | %* |
| Synthetic interest rate on bonds | | 3.62000 | % |

*Excludes fixed spread, which is similar to the City's expected Letter of Credit costs on a comparable variable rate bond

As of June 30, 2016, the rates for the Merrill Lynch Libor-based swap were:

| Term | Rates | | |
|---|---|---|---|
| Interest Rate Swap | | | |
| Fixed payment to Merrill Lynch under swap | Fixed | 3.63200 | % |
| Variable rate payment from Merrill Lynch under swap | 70% of 1-month LIBOR | (0.32554) | % |
| Net interest rate swap payments | | 3.30647 | % |
| Variable rate bond coupon payments | 70% of 1-month LIBOR + fixed spread | 0.32554 | %* |
| Synthetic interest rate on bonds | | 3.63200 | % |

*Excludes fixed spread, which is similar to the City's expected Letter of Credit costs on a comparable variable rate bond

***PAID*** *Swap payments and associated debt*: As of June 30, 2016, 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 |
| 2017 | - | 858,712 | 8,034,001 | 8,892,713 |
| 2018 | - | 858,712 | 8,034,001 | 8,892,713 |
| 2019 | - | 858,712 | 8,034,001 | 8,892,713 |
| 2020 | 15,355,000 | 858,712 | 8,034,001 | 8,892,713 |
| 2021 | 16,015,000 | 802,435 | 7,507,452 | 8,309,886 |
| 2022-2026 | 90,905,000 | 3,080,130 | 28,817,018 | 31,897,149 |
| 2027-2031 | 112,005,000 | 1,265,923 | 11,843,523 | 13,109,446 |
| Total: | 234,280,000 | 8,583,336 | 80,303,995 | 88,887,332 |

### c. Philadelphia Airport Swap

*Objective:* In April 2002, the City entered into a swaption that provided the City's Aviation Division (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, 2016, the swap had a notional amount of $121.4 million and the associated variable-rate bonds had a $121.4 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, 2016, the swap had a negative fair value of ($16.04 million). This means that if the swap terminated today, the Airport would have to pay this amount to JP Morgan Chase. The fair value of the swap was measured using the income approach and is categorized within Level 2 of the fair value hierarchy.

*Risk:* As of June 30, 2016, 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.

As of June 30, 2016, the rates were:

| Terms | Rates | | |
|---|---|---|---|
| Interest Rate Swap | | | |
| Fixed payment to JP Morgan under swap | Fixed-declining | 4.11356 | % |
| Variable rate payment from JP Morgan under sw | SIFMA | (0.41000) | % |
| Net interest rate swap payments | | 3.70356 | % |
| Variable rate bond coupon payments | Weekly resets | 0.42000 | % |
| Synthetic interest rate on bonds | | 4.12356 | % |

*Swap payments and associated debt:* As of June 30, 2016, 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 |
| 2017 | $ | 10,700,000 | 509,880 | 4,496,120 | 5,006,000 |
| 2018 | | 11,400,000 | 464,940 | 3,875,380 | 4,340,320 |
| 2019 | | 12,200,000 | 417,060 | 3,164,886 | 3,581,946 |
| 2020 | | 13,000,000 | 365,820 | 2,457,956 | 2,823,776 |
| 2021 | | 13,700,000 | 311,220 | 1,857,456 | 2,168,676 |
| 2022-2026 | | 60,400,000 | 644,700 | 2,907,632 | 3,552,332 |
| Total: | | 121,400,000 | 2,713,620 | 18,759,430 | 21,473,050 |

**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 and Water Department 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, 2016, the swap had a notional amount of $35.33 million and the associated variable-rate bond had a $35.33 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, 2016, the swap had a negative fair value of ($1.51 million). This means that the Water Department would have to pay this amount if the swap terminated. The fair value of the swap was measured using the income approach and is categorized within Level 2 of the fair value hierarchy.

*Risk:* As of June 30, 2016 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, 2016, the rates were:

| Terms | Rates | | |
|---|---|---|---|
| Interest Rate Swap | | | |
| Fixed payment to Citi under swap | Fixed | 4.53000 | % |
| Variable rate payment from Citi under sv | 68.5% of 1-month LIBOR | (0.31856) | % |
| Net interest rate swap payments | | 4.21144 | % |
| Variable rate note coupon payments | 68.5% of 1-month LIBOR + fixed spreac | 0.31856 | %* |
| Synthetic interest rate on bonds | | 4.53000 | % |

**Excludes fixed spread, which is similar to the City's expected Letter of Credit costs on a comparable variable rate bon*

Swap payments and associated debt: As of June 30, 2016, 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 |
| 2017 | $ 17,145,000.00 | 112,531.06 | 1,487,691.44 | $ 1,600,222.50 |
| 2018 | 18,015,000.00 | 57,914.07 | 765,639.93 | 823,554.00 |
| 2019 | 165,000.00 | 525.62 | 6,948.88 | 7,474.50 |
| Total: | $ 35,325,000.00 | 170,970.75 | 2,260,280.25 | $ 2,431,251.00 |

**(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 $1.4 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 2016 Pension Funding Bonds liability of $997.5 million is reflected in the City's financial statements as another Long Term Obligation.

**(8) Neighborhood Transformation Initiative Service Agreement**

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.

In April 2015, PRA issued the Series 2015A, $73.2 million and the Series 2015B, $38.3 million - Revenue Refunding Bonds. The 2015A and 2015B Bonds were issued for the purpose of Refunding the 2005B and 2005C bonds and to pay for the cost of issuance of the 2015A & 2015B Bonds.

The fiscal year 2016 NTI Service Agreement liability of $182.4 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 2016, the Sports Stadium Financing Agreement liability of $276.5 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. During fiscal year 2007, none of the proceeds were spent. In fiscal 2016 the liability of $93.6 million is reflected in the City's financial statements as Other Long Term Liabilities.

**(11) City Service Agreement**

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. In fiscal year 2016, the liability of $299.8 million is reflected in the City's financial statements as Other Long Term Liabilities.

**(12) School District**

In June 2014, **PAID** issued City Service Agreement Revenue Bonds, **Series 2014A** in the amount of $27.2 million. The bonds shall bear interest at the LIBOR Interest Rate. The Calculation Agent will determine the LIBOR interest rate on each computation date and will become effective on the Libor index reset date next succeeding the computation date and will accrue each date during the rate period. The LIBOR interest rate will be rounded if necessary to the nearest one hundred-thousandth of a percentage point. The bonds were issued to provide additional operating funds for the School District of Philadelphia and pay the costs of issuance. The bonds have a maturity date of August 15, 2018. In fiscal year 2016, **PAID** School District liability of $29.1 million is reflected in the City's financial statements as Other Long Term Liabilities. In October of 2014, **PAID** issued $57.5 million of Lease Revenue Bonds. The proceeds of the sale were used to refund $27.2 million of the **Series 2014A** bonds outstanding and provide the School District with $30.0 million of new funding. The interest rate of the refunded bonds was variable. The interest rate of the newly issued bonds is 1.78%. The purpose of the transaction was to provide the school district with $30.0 million of additional funding and not to generate any savings of the refunded portion of $27.2. The newly issued bond have a maturity date of June 30, 2018.

### (13) Net Pension Liability

Net Pension Liabilities at June 30, 2014 was $404.7 million and $49.7 million for the Governmental and Business Type Activities, respectively. As a result of a change in accounting principle (implementation of GASB 68) the beginning FY 2015 Net Position was adjusted by $4.7 billion and $579.7 million for Governmental and Business Type Activities respectively. During FY 2016, the Governmental Activities' Net Pension Liabilities (NPL) increased by $484.9 million resulted in Net Pension Liability of $5.6 Billion. During FY 2016, the Business Type Activities' NPL increased by $59.6 million resulting in a Net Pension Liability of $678.6 million

## B. COMPONENT UNIT LONG-TERM DEBT PAYABLE

### (1) Governmental Debt Payable

The **SDP** has debt that is classified as General Obligation debt payable. The General Obligation Bonds outstanding at year-end total $2,989 million in principal, with interest rates from 1.25% to 6.765% and have due dates from 2017 to 2040. The following schedule reflects the changes in long-term liabilities for the **SDP**:

| Governmental Activities | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | 3,099.6 | 356.8 | (467.1) | 2,989.3 | 120.1 |
| Add: Bond Premium | 133.0 | - | (12.3) | 120.7 | 12.0 |
| Less: Bond Discounts | (8.8) | - | 0.6 | (8.2) | (0.5) |
| Total Bonds Payable | 3,223.8 | 356.8 | (478.8) | 3,101.8 | 131.6 |
| Termination Compensation Payable (2) | 192.1 | 12.7 | (15.4) | 189.4 | 34.2 |
| Severance Payable | 126.4 | 8.3 | (8.1) | 126.6 | 15.2 |
| Other Liabilities | 123.7 | 28.9 | (37.9) | 114.7 | 35.7 |
| Incurred But Not Reported (IBNR) Payable (3) | 15.8 | 2.2 | - | 18.0 | 18.0 |
| Deferred Reimbursement | 45.3 | - | - | 45.3 | 45.3 |
| DHS Liability | 1.0 | - | (1.0) | - | - |
| OPEB Liability | 1.2 | 0.5 | - | 1.7 | - |
| Arbitrage Liability | 3.4 | - | (3.1) | 0.3 | 0.3 |
| NFS Federal Liability | 0.8 | - | (0.8) | - | - |
| PSERS Pension Liability (2) | 2,980.4 | 239.3 | (181.1) | 3,038.6 | - |
| Total | 6,713.9 | 648.7 | (726.2) | 6,636.4 | 280.3 |

(1) Termination (Compensated absences), severance, unemployment, workers' compensation, claims and judgments liabilities are accrued to the governmental funds to which the individual is charged. These liabilities are then liquidated by the General Fund. In addition, DHS, OPEB and Arbitrage liabilities are fully liquidated by the General Fund.

(2) Restated beginning balance which was previously included in Print Shop as part of Governmental Activities; Beginning in fiscal year 2016, the District reclassified the Print Shop as a Business-Type Activities.

(3) This liability was previously considered a long-term debt under Governmental Activities; beginning in fiscal year 2016, the District reclassified this liability as part of the new Self Insurance Health Care Internal Service Fund.

Debt service to maturity on the SDP's general obligation bonds and lease rental debt at year end is summarized as follows:

*(Amounts In Thousands of USD)*

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2017 | 120,063 | 135,968 | 256,031 |
| 2018 | 116,820 | 130,360 | 247,180 |
| 2019 | 140,420 | 124,719 | 265,139 |
| 2020 | 125,340 | 118,760 | 244,100 |
| 2021 | 130,330 | 112,746 | 243,076 |
| 2022-2026 | 750,280 | 470,302 | 1,220,582 |
| 2027-2031 | 941,770 | 310,807 | 1,252,577 |
| 2032-2036 | 559,290 | 99,075 | 658,365 |
| 2037-2040 | 105,020 | 13,682 | 118,702 |
| Totals | 2,989,333 | 1,516,419 | 4,505,752 |

**(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 | 5.25 % | 837.8 | Fiscal | 2017 | to | 2040 |
| PPA | 3.00 % | to | 5.25 % | 147.0 | Fiscal | 2017 | to | 2030 |
| CCP | 2.00 % | to | 6.25 % | 73.9 | Fiscal | 2017 | to | 2028 |
| Total Revenue Debt Payable | | | | 1,058.7 | | | | |

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 | | Community College of Philadelphia | |
|---|---|---|---|---|---|---|
| Year | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | 34.79 | 27.85 | 13.17 | 6.79 | 6.91 | 3.65 |
| 2018 | 47.77 | 32.16 | 13.80 | 6.13 | 6.81 | 3.26 |
| 2019 | 47.65 | 30.00 | 14.10 | 5.48 | 6.23 | 2.89 |
| 2020 | 48.43 | 27.64 | 14.61 | 4.80 | 6.52 | 2.61 |
| 2021 | 49.14 | 25.29 | 15.21 | 4.07 | 6.80 | 2.31 |
| 2022-2026 | 253.08 | 92.90 | 56.49 | 13.45 | 29.84 | 6.86 |
| 2027-2031 | 176.48 | 54.85 | 19.59 | 3.21 | 10.75 | 0.81 |
| 2032-2036 | 124.99 | 24.65 | - | 0.00 | - | - |
| 2037-2040 | 55.51 | 5.54 | - | - | - | - |
| | - | - | - | - | - | - |
| Totals | 837.8 | 320.9 | 147.0 | 43.9 | 73.9 | 22.4 |

### (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 † | 410.4 |
| School District of Philadelphia | 89.7 |
| Total | 500.1 |

† - Gas Works amounts are presented as of August 31, 2016

**PGW** assets pledged, primarily noncallable U.S. Government securities, had a market value of $436.2 million at August 31, 2016, bearing interest on face value from 0% to 5.89%.

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.

As in prior years, the School District defeased certain general obligation bonds by placing the proceeds of the refunding 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.

This includes the following:

(a) As of June 30, 2016, $83.4 million of bonds outstanding are considered to be defeased and the liability has been removed from long-term liabilities.

(b) In addition, as of June 30, 2016, the Defeasance Accounts from the Sale of SDP Property had $6.3 million of bonds outstanding considered to be defeased and the liability was removed from long-term liabilities

### (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, 2016, the arbitrage rebate calculation indicates a liability totaling $308,817. Of this amount, $266,070 related to the Series A and B Bonds of 2006 issued through the State Public School Building Authority is due payable on 60 days after December 28, 2016 while the remaining $42,748 related to GOB Series 2010E, 2010F and 2010G. This year's liability is lower than last year's liability of $693,425. The School District received a final rebate calculation for the GOB Series A and B Bonds of 2006 on January 11, 2017 in the amount of $264,479 payable by February 28, 2017.

The School District has reserved as of June 30, 2016 $308,817 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

*Objective* - In January 2006, the City entered into a fixed rate payor, 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.

*Terms* - The swaps have a maturity date of August 1, 2028 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 2016, the underlying variable rate bonds maturing in FY 2017 through FY 2023 were refunded with fixed rate bonds and the related portions of the swaps, totaling $102.7 million in notional amount, were terminated. PGW made a termination payment of $13.9 million to partially terminate the swaps.

As of August 31, 2016, the swaps had a notional amount of $122.8 million and the associated variable rate debt had a $122.8 million principal amount, broken down by series as follows:

- The Series B swap had a notional amount of $27.4 million and the associated variable rate bonds had a $27.4 million principal amount.
- The Series C swap had a notional amount of $27.2million and the associated variable rate bonds had a $27.2 million principal amount.
- The Series D swap had a notional amount of $40.8 million and the associated variable rate bonds had a $40.8 million principal amount.
- The Series E swap had a notional amount of $27.4 million and the associated variable rate bonds had a $27.4 million principal amount.

The final maturity date for all swaps is on August 1, 2028.

*Fair Value* - As of August 31, 2016, the swaps had a combined negative fair value of approximately $31.8 million. The fair values of the interest rate swaps were estimated using the zero coupon method and are classified as Level 2 within the fair value hierarchy. 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.

*Risk* - As of August 31, 2016, 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 **PGW**'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, 2016 and 2015 is as follows (thousands of U.S. dollars):

*Amount in Thousands*

| | | Interest rate swap liability | | Deferred outflow of resources |
|---|---|---|---|---|
| Balance, August 31, 2015 | $ | 39,410 | $ | 20,948 |
| Change in fair value through August 31, 2016 | $ | (7,604) | $ | (7,604) |
| Amortization of teminated hedge | $ | - | $ | 1,419 |
| Balance, August 31, 2016 | $ | 31,806 | $ | 14,763 |

| | | Interest rate swap liability | | Deferred outflow of resources |
|---|---|---|---|---|
| Balance, August 31, 2014 | $ | 38,762 | $ | 18,879 |
| Change in fair value through August 31, 2015 | $ | 648 | $ | 648 |
| Amortization of teminated hedge | $ | - | $ | 1,421 |
| Balance, August 31, 2015 | $ | 39,410 | $ | 20,948 |

Because the original hedging relationship was terminated when the Sixth Series Bonds were refunded by the Eighth Series Bonds in 2009, there is a difference between the interest rate swap liability and the related deferred outflows of resources. The difference is being amortized on a straight-line basis into expense over the life of the hedge.

The interest rate swap liability is included in other non-current liabilities 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, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2016 financial statements are as follows (amounts in thousands; debit (credit)):

| **Derivative Instruments:** | Changes in Fair Value | | Fair Value as of June 30, 2016 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional Amount |
| Government Activities: | | | | | |
| Investment Derivatives: | | | | | |
| Pays-Variable Interest Rates Swaps | Investment Revenue | (8,725) | Investment | (664) | 500,000 |

As of June 30, 2016, 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.

In February 2015, the GASB issued Statement 72, addressing the accounting and financial reporting issues related to fair value measurements. GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between swap counterparties at the measurement date, which includes the non-performance risk. The Statement is effective for reporting periods beginning after June 15, 2015. The School District adopted GASB 72 beginning Fiscal Year ended 2016.

The District's investments are valued at fair value using the following hierarchy:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other that quoted market prices; and
- Level 3: Unobservable inputs

The lowest available level of valuation available is used for all investments.

Fixed income securities are valued based on the values for similar assets in an active market. Equity securities are valued based on published values for identical assets in an active market.

The income approach is used to obtain the fair value of the swaps, where future amounts (the expected swap cash flows) are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows, and time value of money. Where applicable under the income approach, the option pricing model technique, such as the Black-Derman-Toy model, or other appropriate option pricing model is used. This valuation technique is applied consistently across all the swaps.

Given the observability of inputs that are significant to the entire measurement, the fair values of the School District investments are categorized as follows:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Morgan Stanley Institutional Liquidity Fund Treasury | | | |
| Securities Portfolio | 115,583,032 | | |
| Federal Home Loan Bank | | 16,374,333 | |
| Fedral National Mortgage Assoc | | 8,999,364 | |
| SIFMA Swap | | (644,033) | |
| Total | 115,583,032 | 24,729,664 | - |

## 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:

| *(Amounts In Thousands of USD)* | **Primary Government** Governmental Funds | Proprietary Funds | **Component Units** |
|---|---|---|---|
| Minimum Rentals | 7,129 | 59,324 | 43,873 |
| Additional Rentals | - | 169,836 | 200 |
| Sublease | 10,908 | - | 2,712 |
| Total Rental Income | 18,037 | 229,160 | 46,785 |

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 | Proprietary Funds | **Component Units** |
|---|---|---|---|
| 2017 | 13,793 | 27,716 | 3,530 |
| 2018 | 12,550 | 6,652 | 2,710 |
| 2019 | 11,545 | 6,668 | 2,051 |
| 2020 | 11,178 | 6,280 | 5,105 |
| 2021 | 11,371 | 4,523 | 614 |
| 2021-2025 | 47,378 | 18,922 | 1,183 |
| 2026-2030 | 17,833 | 13,768 | - |
| 2031-2035 | 18,018 | 6,559 | - |
| 2036-2040 | 18,315 | 5,841 | - |
| Total | 161,981 | 96,929 | 15,193 |

## 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 | | Component Units |
|---|---|---|---|
| | Governmental Funds | Proprietary Funds | |
| Minimum Rentals | 183,825 | 46,139 | 5,440 |
| Additional | - | - | 73 |
| Sublease | - | - | 2,712 |
| Total Rental Expense | 183,825 | 46,139 | 8,225 |

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** | |
| 2017 | 35,819 | 811 | 15,137 |
| 2018 | 29,663 | 352 | 12,584 |
| 2019 | 22,612 | 199 | 9,920 |
| 2020 | 20,860 | 199 | 9,739 |
| 2021 | 19,427 | 199 | 8,638 |
| 2022-2026 | 56,639 | 997 | 43,003 |
| 2027-2031 | 18,181 | 997 | 9,741 |
| 2032-2036 | - | 997 | 10,660 |
| 2037-2041 | - | - | 9,153 |
| Total | 203,201 | 4,751 | 128,575 |

### 2) CAPITAL LEASES

Capital leases consist of leased real estate and equipment from various component units. Future minimum rental commitments are as follows:

Future Minimum Capital Lease Payments *(Amounts In Thousands of USD)*

| **Fiscal Year Ending June 30** | **Principal** | **Interest** | **Total** |
|---|---|---|---|
| 2017 | 358,836 | 29,067 | 387,903 |
| 2018 | 272,897 | 19,651 | 292,548 |
| 2019 | 242,438 | 10,738 | 253,176 |
| 2020 | 127,917 | 3,168 | 131,085 |
| 2021 | 22,758 | 453 | 23,211 |
| | 1,024,846 | 63,077 | 1,087,923 |

## 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, 2014, 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

**PGW** offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Service Code Section 457. The Plan, available to all **PGW** employees with at least 30 days of service, permits them to defer a portion of their salary until future years. **PGW** provides an annual 10.0% matching contribution of applicable wages that immediately vests to the employee. **PGW** contributed $0.3 million in FY2016.

## 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 Permanent Funds ($3.1 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 $54.5 million at June 30, 2016. The fund balances in the following Special Revenue Funds were restricted: HealthChoices Behavioral Health ($220.1 million); Grants Revenue ($40.8 million); County Liquid Fuels ($1.9 million); Special Gasoline Tax ($35.2 million); Hotel Room Rental Tax ($12.3 million); Car Rental Tax ($6.4 million); Housing Trust ($20.8 million); Acute Care Hospital Assessment ($11.2 million); Departmental ($10.7 million); Municipal Authority Administrative ($0.2 million); PICA Administrative ($25.5 million). The Debt Service Fund had a Restricted Fund Balance of ($81.5 million) and entire fund balance of the Capital Improvement ($133.1 million) funds was restricted. The Permanent Fund had a restricted fund balance of $3.2 million at June 30, 2016.

- 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: Riverview Residents ($.03 million), Philadelphia Prisons ($2.9 million), and Departmental ($1.7 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 $78.01 million at June 30, 2016 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 $0.0 million unassigned fund balance at June 30, 2016. Within the Special Revenue Funds, the Grants Revenue fund had a negative fund balance of $322.5 million and the Community Development fund had a negative fund balance of $5.3 million at June 30, 2016.

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.

The table below presents a more detailed breakdown of the City's fund balances at June 30, 2016:

| (Amounts In Thousands of USD) | General Fund | HealthChoices Behavioral Health Fund | Grants Revenue Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Nonspendable:** | | | | | |
| Permanent Fund (Principal) | - | - | - | 3,137 | 3,137 |
| **Subtotal Nonspendable:** | - | - | - | 3,137 | 3,137 |
| **Restricted for:** | | | | | |
| Neighborhood Revitalization | - | - | 18 | - | 18 |
| Economic Development | - | - | - | 12,279 | 12,279 |
| Public Safety Emergency Phone System | - | - | 40,813 | - | 40,813 |
| Streets & Highways | - | - | - | 37,115 | 37,115 |
| Housing & Neighborhood Dev | - | - | - | 20,767 | 20,767 |
| Health Services | - | - | - | 11,195 | 11,195 |
| Behavioral Health | - | 220,062 | - | - | 220,062 |
| Parks & Recreation | - | - | - | 790 | 790 |
| Libraries & Museums | - | - | - | 3,041 | 3,041 |
| Intergovernmental Financing (PICA) | - | - | - | 25,538 | 25,538 |
| Intergovernmentally Financed Programs | - | - | - | - | - |
| Central Library Project | 1,688 | - | - | - | 1,688 |
| Stadium Financing | 558 | - | - | 6,380 | 6,938 |
| Cultural & Commercial Corridor Project | 7,444 | - | - | - | 7,444 |
| Capitalized Interest | 44,764 | - | - | - | 44,764 |
| Debt Service Reserve | - | - | - | 81,469 | 81,621 |
| Capital Projects | - | - | - | 133,091 | 133,091 |
| Trust Purposes | - | - | - | 10,153 | 10,153 |
| **Subtotal Restricted** | 54,454 | 220,062 | 40,831 | 341,970 | 657,317 |
| **Committed, reported in:** | | | | | |
| Social Services | - | - | - | 30 | 30 |
| Prisons | - | - | - | 2,851 | 2,851 |
| Parks & Recreation | - | - | - | 1,663 | 1,663 |
| **Subtotal Committed** | - | - | - | 4,544 | 4,544 |
| **Assigned, reported in:** | | | | | |
| Encumbrances | 78,014 | - | - | - | 78,014 |
| **Subtotal Assigned:** | 78,014 | - | - | - | 78,014 |
| **Unassigned Fund Balance:** | - | - | (322,495) | (5,309) | (327,804) |
| **Total Fund Balances** | 132,468 | 220,062 | (281,664) | 344,342 | 415,208 |

## 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)*

| | Transfers To: | | | | | |
|---|---|---|---|---|---|---|
| | Govermental | | Non major Governmental | | | |
| **Transfers From:** | **General** | **Grants** | **Special Revenue** | **Debt Service** | **Capital Improvement** | **Total** |
| **General Fund** | - | - | 11,376 | 158,558 | 765 | 170,699 |
| **Grants Revenue Fund** | 24,116 | - | 1,433 | 4,428 | 1,904 | 31,881 |
| **Non major Special Rev. Fds** | 383,434 | - | 211 | 63,752 | 4,557 | 451,954 |
| **Permanent Funds** | - | - | 128 | - | - | 128 |
| **Water Fund** | 1,556 | - | 30,066 | - | - | 31,622 |
| **Total** | 409,106 | - | 43,214 | 226,738 | 7,226 | 686,284 |

## 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 | 2,113.4 |
| Service Agreements | 1,919.7 |
| Employee Related Obligations | 488.0 |
| Indemnities | 70.4 |
| Leases | 8.7 |
| Total Adjustment | 4,600.2 |

## 13. PRIOR PERIOD ADJUSTMENTS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

### A. PRIMARY GOVERNMENT

The Water Fund’s Net Position decreased by ($22.0) million as a result of, (1) direct payments and cancelled projects of ($18.6) million being carried in Construction In Progress (CIP) that should have been expensed in prior fiscal years when incurred; and (2) depreciation from CIP of ($3.4) million that should have been transferred to fixed assets in previous fiscal years. The effect of the adjustment is reflected as a decrease to the Water & Sewer Net Position as of July 1, 2015 in the City’s June 30, 2016 - Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds, Exhibit VII.

### B. COMPONENT UNIT

**Philadelphia Parking Authority (PPA),** adopted the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* for the year ending March 31, 2016.

The effect of this adoption decreased the PPA's net position at April 1, 2015 by $119,539,479 for the recording of the PPA's net pension liability, and expanded note disclosures and required supplementary information. PPA did not restate the prior period as the earliest actuarial information under GASB 67 was not available to measure the net position as of April 1, 2014 since there is a 15 month lag between the measurement date and the financial statement date.

The **Community College of Philadelphia** (**CCP)'s** Net Position increased by $109 thousand for an adjustment involving an increase to Accounts Receivable. The effect of the adjustment is reflected as an increase to **CCP's** Net Position as of July 1, 2015 in the City's June 30, 2016 Statement of Activities – Component Units, Exhibit XII.

In fiscal year 2016, the **PRA**'s land inventories were retroactively adjusted to record the historical cost of all properties owned/held by the PRA. The adjustments were a result of the PRA's valuation project, which used a real estate expert to value these properties using a Hedonic Price Analysis model. As a result, a prior period adjustment was recognized to record the estimated historical land value. The PRA restated its land inventory balance at June 2015, increasing it by $110,701,820. The restatement increased net position as of June 30, 2015 by $110,701,820., as presented in the following table:

| | |
|---|---|
| Net position as of June 30, 2015 (previously reported) | $ 76,432,348 |
| Prior period restatement - land inventory valuation change | 110,701,820 |
| Net Position as of June 30, 2015 (restated) | $ 187,134,168 |

The **SDP's** beginning net position was increased by $81,919. The capital assets adjustment involved: (1) an increase in Construction in Progress to record capital grants for Fiscal Year 2015 of $81,918 and (2) an increase in Land by $1 to record the 1967 acquisition cost of the Elverson lot.

For Fiscal Year 2016, the **SDP** changed its computation and restated its July 1, 2015 "Net Investment in Capital Assets" and "Unrestricted (Deficit)" based on a reevaluation of the accounting practices used to compute it.

"Net Investment in Capital Assets" decreased by $172.0 million which was offset by a increase of the same amount to "Unrestricted (Deficit)". This adjustment related to Net Debt Related to Disposed Capital Assets ($52.1) million and Adjustment to Cumulative Undercapitalized Expenditures for Non-Capitalized Amounts ($119.9) million.

### 14. NET POSITION RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net position reports $1,275.7 million of restricted net position, of which $87.9 million is restricted by enabling legislation as follows:

| *(Amounts in Thousands of USD)* | Restricted Net Position | Restricted by Enabling Legislation |
|---|---|---|
| Capital Projects | 254,617 | |
| Debt Service | 372,505 | |
| Pension Oblig Bond Refunding Reserve | 44,764 | |
| Behavioral Health | 220,062 | |
| Neighborhood Revitalization | 19 | |
| Stadium Financing | 558 | |
| Central Library Project | 1,688 | |
| Cultural & Commercial Corridor Project | 7,444 | |
| Grant Programs | 94,719 | 20,767 |
| Rate Stabilization | 205,761 | |
| Libraries & Parks: | | |
| Expendable | 3,235 | |
| Non-Expendable | 3,137 | |
| Educational Programs | - | |
| Other | 67,182 | 67,182 |
| Total | 1,275,691 | 87,949 |

### 15. FUND DEFICITS

- The Grants Revenue fund, which is a Special Revenue Fund, has a Fund Balance Deficit at year-end of $281.7 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 $5.3 million.

## 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 two plans maintained by the City are the City Plan and the Philadelphia Gas Works (PGW) Plan. In addition to the City, the three other quasi-governmental agencies that participate in the City Plan are the Philadelphia Parking Authority (PPA), the Philadelphia Municipal Authority (PMA), and the Philadelphia Housing Development Corporation (PHDC).

Effective with Fiscal Year 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This statement revises existing standards for measuring and reporting pension liabilities for pension plans. GASB Statement No. 68 defines a single employer as the primary government and its component units. All three quasi-governmental agencies that participate in the City Plan were determined to be component units of the City. Therefore, the City Plan meets the definition of a single employer plan.

The note disclosures and Required Supplementary Information required by GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB No. 25*, are presented in the separately issued audited financial statements of the City Plan and PGW Plan. Copies of these financial statements may be obtained by contacting the Director of Finance of the City of Philadelphia.

## A. PRIMARY GOVERNMENT

### (1) City Plan

### a. PENSION FUND DESCRIPTION

**Plan Administration.** The Philadelphia Board of Pensions (the Pension Board) administers the City of Philadelphia Municipal Pension Fund (the Fund)- a single-employer defined benefit pension plan with a small but increasing defined contribution component, which provides pensions for all officers and employees of the City of Philadelphia (the City), as well as those of three quasi-governmental agencies (per applicable enabling legislation and contractual agreements). The Board was established by section 2-308 of the 1952 Philadelphia Home Rule Charter. Its actions in administering the Retirement System are governed by Title 22 of the Philadelphia Code.

The Board consists of nine voting members - four elected by the active members within the civil service, and the City's Controller, Solicitor, Managing Director, Personnel Director, and Director of Finance, who serves as the Chair.

Plan Membership. At July 1, 2015, the date of the most recent actuarial valuation, pension plan membership consisted of the following:

| | |
|---|---|
| Actives | 27,951 |
| Terminated Vested | 1,334 |
| Disabled | 4,016 |
| Retirees | 22,245 |
| Beneficiaries | 8,566 |
| DROP | 1,784 |
| Total City Members | 65,896 |
| | |
| Annual Salaries | $ 1,597,848,869 |
| Average Salary per Active Member | $ 57,166 |
| | |
| Annual Retirement Allowances | $ 719,580,951 |
| Average Retirement Allowance | $ 20,662 |

**Contributions.** Per Title 22 of the Philadelphia Code, members contribute to the Fund at various rates based on bargaining unit, uniform/non-uniform/elected/exempt status, and entry date into the Fund. Beginning July 1, 2015, members contributed at one of the following rates:

| Employee Rates | Plan 67 | Plan 87 | Plan 10 |
|---|---|---|---|
| Uniform | 6.00% | 5.00% or 6.00% | 5.50% |
| Non-Uniform | 3.75%, 4.25%, 5.62%, 6.00% or 6.50% | 1.97%, 2.47%, 2.64%, 3.14%, 3.29%, 3.47% or 4.14% | 3.16% |
| Elected Officials | N/A | 8.48%, 9.11%, 9.48% or 10.11% | 3.16% |

Employer contributions are made by the City throughout each fiscal year (which ends June 30) and by three (3) quasi-governmental agencies on a quarterly basis. These contributions, determined by an annual actuarial valuation report (AVR), when combined with plan member contributions, are expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Within the AVR, two contribution amounts are determined based upon two different sets of rules for determining the way the unfunded actuarial liability is funded.

The first method is defined in accordance with Act 205 and defines the Minimum Municipal Obligation (MMO), which is the City's minimum required contribution under Pennsylvania state law.

The second method is in accordance with the City's Funding Policy, which predates the Act 205 rules and calls for contributions that are greater than the MMO until the initial unfunded liability determined in 1984 is fully funded.

Under both funding methods there are two components: the normal cost and the amortized unfunded actuarial liability. The actuarial unfunded liability is the amount of the unfunded actuarial liability that is paid each year based upon the given or defined amortization periods. The amortization periods are different under the MMO and City's Funding Policy.

**City's Funding Policy:**
The initial July 1, 1985 unfunded actuarial liability (UAL) is amortized over 34 years ending June 30, 2019 with payments increasing at 3.3% per year, the assumed payroll growth. Other changes in the actuarial liability are amortized in level-dollar payments as follows:

- Actuarial gains and losses – 20 years beginning July 1, 2009. Prior gains and losses were amortized over 15 years.
- Assumptions changes – 15 years beginning July 1, 2010. Prior to July 1, 2010, assumption changes were amortized over 20 years.
- Plan changes for active members – 10 years.
- Plan changes for inactive members – 1 year.
- Plan changes mandated by the State – 20 years.

In fiscal year 2016, the City and other employers' contributions of $660.2 million was less than the actuarially determined employer contribution (ADEC) of $846.2 million. In the event that the City contributes less than the funding policy, an experience loss will be created that will be amortized in accordance with funding policy over 20 years.

The Schedule of Employer Contributions (based on the City's Funding Policy) is included as Required Supplemental Information and provides a 10-year presentation of the employer contributions.

**Minimum Municipal Obligation (MMO):**
For the purposes of the MMO under Act 205 reflecting the fresh start amortization schedule, the July 1, 2009 UAL was "fresh started" to be amortized over 30 years ending June 30, 2039. This is a level dollar amortization of the UAL. All future amortization periods will follow the City's Funding Policies as outlined above.

In fiscal year 2016, the City and other employers' contributions of $660.2 million exceeded the Minimum Municipal Obligation of $598.5 million.

The Schedule of Employer Contributions (based on the MMO Funding Policy) is included as Required Supplemental Information and provides a 10-year presentation of the employer contributions.

**b. <u>BENEFITS</u>**

The Fund provides retirement, disability, and death benefits according to the provisions of Title 22 of the Philadelphia Code. These provisions prescribe retirement benefit calculations, vesting thresholds, and minimum retirement ages that vary based on bargaining unit, uniform/non-uniform status, and entry date into the System.

Non-uniform employees may retire at either age 55 with up to 80% of average final compensation (AFC) or age 60 with up to either 100% or 25% of AFC, depending on entry date into the System. Uniform employees may retire at either age 45 with up to 100% of AFC or age 50 with up to either 100% or 35% of AFC, depending on entry date into the System. Survivorship selections may result in an actuarial reduction to the calculated benefit.

Members may qualify for service-connected disability benefits regardless of length of service. Service-connected disability benefits are equal to 70% of a member's final rate of pay, and are payable immediately without an actuarial reduction. These applications require approval by the Board.

Eligibility to apply for non-service-connected disability benefits varies by bargaining unit and uniform/non-uniform status. Non-service-connected disability benefits are determined in the same manner as retirement benefits, and are payable immediately.

Service-connected death benefits are payable to:

1. surviving spouse/life partner at 60% of final rate of pay plus up to 2 children under age 18 at 10% each of final rate of pay (maximum payout: 80%);
2. if no surviving spouse/life partner, up to 3 children under age 18 at 25% each of final rate of pay (maximum payout 75%); or
3. if no surviving spouse/life partner or children under age 18, up to 2 surviving parents at 15% each of final rate of pay (maximum payout 30%).

Non-service-connected deaths are payable as a lump sum payment, unless the deceased was either vested or had reached minimum retirement age for their plan, in which case the beneficiary(ies) may instead select a lifetime monthly benefit, payable immediately with an actuarial reduction.

A Pension Adjustment Fund (PAF) is funded with 50% of the excess earnings that are between 1% and 6% above the actuarial assumed earnings rate. Each year within sixty days of the end of the fiscal year, by majority vote of its members, the Board of Directors of the Fund (the Board) shall consider whether sufficient funds have accumulated in the PAF to support an enhanced benefit distribution (which may include, but is not limited to, a lump sum bonus payment, monthly pension payment increases, ad-hoc cost-of-living adjustments, continuous cost-of-living adjustments, or some other form of increase in benefits as determined by the Board) to retirees, their beneficiaries and their survivors. As of July 1, 2015, the date of the most recent actuarial valuation, there was $38,198,762 in the PAF and the Board voted to make PAF distributions of $30,004,292 during the fiscal year ended June 30, 2016.

The Fund includes a Deferred Retirement Option Plan (DROP Plan). The DROP Plan allows a participant to declare that they will retire within 4 years. During the 4-year period, the City will make no further contributions for the participant. The participant would continue to work and to receive their salary; however, any increases would not be counted towards their pension benefit. During the 4-year period the individual participates in the DROP Plan, their pension benefits will be paid into an escrow account in the participant's name. After the 4-year period, the participant would begin to receive their pension benefits and the amount that has been accumulated in the escrow account in a lump sum payment. The balance in the DROP Plan as of June 30, 2016 is $113.9 million.

## c. INVESTMENTS

The Pension Board's Investment Policy Statement 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 7.75% over a full market cycle. It is anticipated that this return standard should enable the Fund to meet its actuarially assumed earnings projection (currently 7.75%) over a market cycle. The investment return assumption was reduced by the Board from 7.80% to 7.75%. 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. In order to document and communicate the objectives, restrictions, and guidelines for the Fund's investment staff and investments, a continuously updated Investment Policy Statement will be maintained. The Investment Policy Statement will be updated (and re-affirmed) each year at the January Board meeting.

The following was the Board's approved asset allocation policy as of June 30, 2016:

| Asset Class | Target Allocation |
|---|---|
| US Equity | 29.8% |
| Non-US Equity – Developed | 16.8% |
| Non-US Equity – Emerging | 5.2% |
| Fixed Income – Investment Grade | 19.0% |
| Fixed Income – Non-Invest. Grade | 7.5% |
| Real Assets – Private Real Estate | 2.6% |
| Real Assets – Public Real Estate | 1.4% |
| Real Assets – MLP's | 1.9% |
| Private Equity | 9.1% |
| Private Debt | 1.9% |
| Hedge Funds | 3.7% |
| Cash & Other | 1.1% |
| Total | 100.0% |

**Money-Weighted Rate of Return:** For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -3.20%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

**d. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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.

**New GASB Pronouncement**

In February 2015, GASB issued Statement No.72, Fair Value Measurement and Application (GASB 72). This Statement addresses accounting and financial reporting issues related to fair value measurements, and provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement become effective for fiscal periods beginning after June 15, 2015.

**Method Used to Value Investments**

The Fund's investments are reported at fair value. Fair value is the amount that the Fund can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or securities pricing services. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and for properties not appraised, the present value of the projected future net income stream is used.

For private market investments which include private equity, private debt, venture capital, hedge funds and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Futures contracts, foreign exchange contracts, and options are marked-to-market daily with changes in market value recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Investment expenses consist of investment manager fees and investment consultant fees related to the traditional investments only, and not those fees related to the alternative investments. Unsettled investment sales are reported as Accrued Interest and Other Receivable, and unsettled investment purchases are included in Accrued Expenses and Other Liabilities.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

**Income Taxes**

The Fund qualifies under Section 401(a) of the Internal Revenue Code (IRC) and is exempt from income taxation as allowed by Section 501(a) of the IRC.

**Related Parties**

The City's Department of Finance provides cash receipt and cash disbursement services to the Fund. The City's Solicitor's office provides legal services to the Fund. Other administrative services are also provided by the City.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Risks and Uncertainties**

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Fiduciary Net Position.

Contributions are calculated based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these statements and assumptions in the near term would be material to the financial statements.

**Administrative Expenses**

Administrative expenses of the Fund are paid for by the Fund.

**e. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING**

**Legal Provisions**

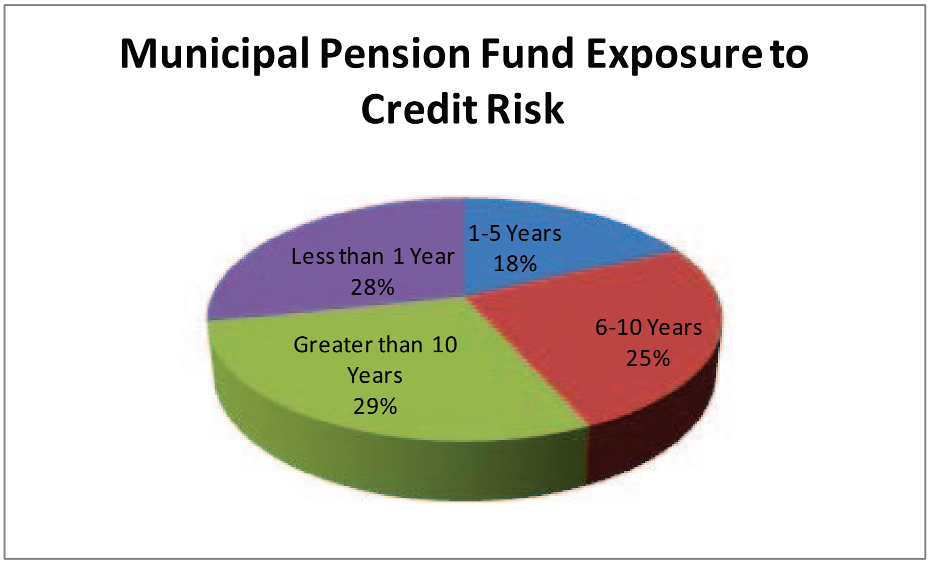
The Fund is authorized to invest in "prudent investments," including obligations of the U.S. Treasury, agencies and instrumentalities of the United States, investment grade corporate bonds, common stock, real estate, private market, etc. City ordinances contain provisions which preclude the Fund from investing in organizations that conduct business in certain countries and also impose limitations on the amounts invested in certain types of securities.

**Interest Rate Risk**

Interest rate risk is the largest risk faced by an investor in the fixed income market. The price of a fixed income security generally moves in the opposite direction of the change in interest rates. Securities with long maturities are highly sensitive to interest rate changes.

Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The higher the duration, the greater the changes in fair value when interest rates change. The Fund measures interest rate risk using option-adjusted duration, which recognizes the fact that yield changes may change the expected cash flows due to embedded options.

This chart details the exposure to interest rate changes based on maturity dates of the fixed income securities:




**Custodial Credit Risk**

In the event of counter-party failure, the Fund may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities held by the counterparty or counterparty's trust department, are uninsured and are not registered in the name of the Fund. The Fund requires that all investments be clearly marked as to ownership, and to the extent possible, be registered in the name of the Fund. Certain investments may be held by the managers in the Fund's name.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of substantial loss if investments are concentrated in one issuer. As of June 30, 2016, the Fund has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

**Credit Risk**

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's rated debt investments as of June 30, 2016 were rated by S&P, a nationally recognized statistical rating agency and are presented below using S&P rating scale:

| 2016 (in thousands) | Total Fair Value | Credit Rating AAA | AA | A | BBB | BB | B | CCC | CC | C | D | NR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asset Backed Securities | $ 14,240 | $ 5,016 | $ 879 | 4,067 | 1,738 | - | - | - | $ - | $ - | $ - | 2,540 |
| CMO/REMIC | 3,235 | 64 | 1,871 | 157 | 235 | 65 | 226 | 304 | - | - | 214 | 99 |
| Commercial Mortgage-Backed Securities | 17,944 | 5,998 | 7,521 | 2,217 | 555 | - | 65 | - | - | - | - | 1,588 |
| Corporate Bonds | 303,817 | 488 | 11,072 | 39,918 | 83,895 | 47,006 | 49,177 | 19,658 | - | 651 | 110 | 51,842 |
| Government Bonds | 346,418 | 10,656 | 246,212 | 30,129 | 17,608 | 25,097 | 4,554 | 1,010 | - | - | - | 11,152 |
| Mortgage Backed Securities | 79,798 | - | 79,798 | - | - | - | - | - | - | - | - | - |
| Municipal Bonds | 7,404 | - | 4,855 | 2,488 | 61 | - | - | - | - | - | - | - |

**Foreign Currency Risk**

The Fund’s exposure to foreign currency risk derives from its position in foreign currency-denominated cash and investments in fixed income, equities, and derivatives. The foreign currency investment in equity securities is 36% of the total investment in equities.

**Municipal Pension Fund - Assets subject to foreign currency risk** *(in thousands)*

| Currency | Cash | Fixed Income | Equities | Derivatives | Total |
|---|---|---|---|---|---|
| Euro | 2,052 | 8,774 | 191,517 | (345) | 201,998 |
| Japanese Yen | 12,120 | - | 138,058 | - | 150,178 |
| Pound Sterling | 878 | 8,604 | 129,033 | 1 | 138,516 |
| Hong Kong Dollar | 149 | - | 69,215 | - | 69,364 |
| Swiss Franc | 349 | - | 65,112 | - | 65,461 |
| Canadian Dollar | 5,553 | 206 | 45,669 | (13) | 51,415 |
| Australian Dollar | 183 | 11,102 | 36,791 | - | 48,076 |
| South Korean Won | - | - | 42,867 | - | 42,867 |
| Mexican Peso | 8 | 24,391 | 8,292 | (20) | 32,671 |
| Brazilian Real | 9 | 9,611 | 14,855 | (23) | 24,452 |
| South African Rand | - | 5,310 | 13,870 | 21 | 19,201 |
| Malaysian Ringgit | 7 | 6,832 | 6,814 | - | 13,653 |
| Indonesian Rupiah | 22 | 7,115 | 5,922 | - | 13,059 |
| Swedish Krona | 142 | - | 11,929 | (404) | 11,667 |
| Danish Krone | 58 | - | 8,540 | - | 8,598 |
| Singapore Dollar | 578 | - | 6,234 | - | 6,812 |
| New Zealand Dollar | 28 | 5,578 | 879 | - | 6,485 |
| Polish Zloty | 2 | 3,590 | 2,419 | - | 6,011 |
| Philippine Peso | - | 919 | 4,824 | - | 5,743 |
| Hungarian Forint | - | 4,838 | 579 | (5) | 5,412 |
| Thai Baht | 2 | - | 5,340 | - | 5,342 |
| Chilean Peso | - | - | 3,298 | 276 | 3,574 |
| All Others | 2,572 | 4,694 | 11,673 | (90) | 18,849 |
| | 24,712 | 101,564 | 823,730 | (602) | 949,404 |

**Derivatives**

The Fund may invest in derivatives as permitted by guidelines established by the Pension Board. Pursuant to such authority, the Fund may invest in foreign currency forward contracts, options, futures (S&P Fund) and swaps. No derivatives were purchased with borrowed funds.

Derivatives are generally used to provide market exposure in the equity portfolio and to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of the Fund's fixed income portfolio. These securities are subject to changes in value due to changes in interest rates or currency valuations. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by the Fund, which is the risk that the counterparty might be unable to meet its obligations.

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 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 (CMOs); other forward contracts, and U.S. treasury strips. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The Fund is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The 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 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 senior management, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of the Fund's involvement in the various types and uses of derivative financial instruments and do not measure the 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.

**Derivative Instruments**

The following table summarizes aggregate notional or contractual amounts for the Fund's derivative financial instruments at June 30, 2016 in addition to the fair value and change in the fair value of derivatives.

**List of Derivatives Aggregated by Investment Type**

| Classification | Change in Fair Value | | | Fair Value at June 30, 2016 | | | Notional | |
|---|---|---|---|---|---|---|---|---|
| Investment Derivatives: | | | | | | | | |
| Forwards Currency Contracts | Net appreciation/(depreciation) in Investments | $ | (1,280,269) | Accrued interest and other receivables | $ | (588,465) | $ | 105,832,201 |
| Futures | Net appreciation/(depreciation) in | $ | (93,192) | Accrued expenses | $ | (141,531) | $ | 113 |
| Grand Totals | | $ | (1,373,461) | | $ | (729,996) | $ | 105,832,314 |

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Investment Policy Statement of the City of Philadelphia Municipal 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 Fund involves are described below.

**Credit risk:**

The 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 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 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.

**Swap agreements:**

These derivative instruments provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. Under 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 during 2016. 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.

**Futures contracts:**

These derivative instruments 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. The realized gain from Futures contracts was ($425,537). The fund has cash collateral of $971,025 are valued using a matrix pricing model (Level 2 inputs).

**Forward contracts:**

The Fund is exposed to basis risk on its forward contracts 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. The realized gain from Forward contracts was $944,312.

**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.

**Fair Value Measurement**

The Municipal Pension Fund has the following recurring fair value measurement as of June 30, 2016:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | 6/30/2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Investments by fair value level** | | | | |
| U.S. Treasury Securities | $ 174,835,825 | $ - | $ 174,835,825 | $ - |
| Agency Bonds | 40,428,452 | - | 40,428,452 | - |
| Asset Backed Securities | 14,241,090 | - | 14,241,085 | 5 |
| Corporate Bonds | 304,026,106 | - | 303,847,733 | 178,373 |
| Government Bonds | 118,483,977 | - | 118,483,977 | - |
| Mortgage Backed Securities | 100,998,630 | - | 98,931,992 | 2,066,638 |
| Municipal Bonds | 7,403,777 | - | 7,403,777 | - |
| Sovereign Debt | 12,438,505 | - | 12,438,505 | - |
| Equity | 2,257,989,112 | 2,256,503,492 | - | 1,485,620 |
| **Total Investments by fair value level** | $ 3,030,845,474 | $ 2,256,503,492 | $ 770,611,346 | $ 3,730,636 |
| | | | | |
| **Investments measured at the net asset value (NAV)** | | | | |
| Credit Distressed Hedge Fund | 65,082,999 | | | |
| Equity Long/Short hedge funds | 21,306,534 | | | |
| Real Estate | 229,875,204 | | | |
| Private Equity | 437,907,757 | | | |
| Fixed Income Funds | 337,486,107 | | | |
| Equity Funds | 75,354,026 | | | |
| **Total Investments measured at the NAV** | 1,167,012,627 | | | |
| **Total Investments measured at fair value** | $ 4,197,858,101 | | | |
| | | | | |
| **Investment derivative instruments** | | | | |
| Equity index Futures (Liabilities) | $ (141,531) | $ (141,531) | $ - | |
| Forward Currency Contracts (Assets) | 368,133 | - | 368,133 | |
| Forward Currency Contracts (Liabilities) | (956,598) | - | (956,598) | |
| **Total Investment derivative instruments** | $ (729,996) | $ (141,531) | $ (588,465) | |

Equity securities classified in Level 1 of the fair value hierarchy are valued using quoted market prices. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Mortgage and Asset backed securities and Corporate bonds in Level 3 are valued using discounted cash flow techniques.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

Derivative instruments classified in Level 1 of the fair value hierarchy are valued using quoted market prices. Cash collateral for Futures classified in Level 2 are valued using a matrix pricing model. Derivative instruments classified in Level 2 are valued using a market approach that considers benchmark for foreign exchange rates.

| | | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| **Investments Measured at the net asset value (NAV)** | | | | |
| Credit Distressed Hedge Fund | $ 65,082,999 | - | Quarterly | 90 days |
| Equity Long/Short hedge funds | 21,306,534 | - | Quarterly | 90 days' notice |
| Real Estate | 229,875,204 | 69,324,702 | N/A | N/A |
| Private Equity | 437,907,757 | 210,080,552 | N/A | N/A |
| Fixed Income | 337,486,107 | - | Quarterly | 90-120 days |
| Equity | 75,354,026 | - | Quarterly | 90-120 days |
| **Total Investments measured at the NAV** | $ 1,167,012,627 | | | |

**1. Equity long/short hedge funds**: This Fund will typically hold 40-50 long positions and 10-15 short positions in U.S. common stocks. Management has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The Fund mitigates market risk by utilizing short positions. In periods of extreme volatility, the Fund may hold a significant portion of its assets in cash. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investment can be redeemed with a 90 days' notice.

**2. Credit distressed hedge funds**: The Funds seek to identify and exploit event driven opportunities both on the long and short side in the stressed and distressed corporate debt markets. Investments are generally driven by fundamental, value-oriented analysis and specific credit events. The Funds maintain the flexibility to invest globally and across capital structures of stressed and distressed companies. Investments generally target secondary U.S. credit opportunities across all tranches of a company's debt capital structure. The Funds may also invest opportunistically in certain equities, long and short. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. Investment can be redeemed with a 90 days' notice.

**3. Real estate funds:** This type includes funds that invest in U.S. and Non-U.S. commercial and residential real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. The investee fund's management is required to approve of the buyer before the sale of the investments can be completed. It is expected that the underlying assets of the funds will be liquidated over the next seven to 10 years.

**4. Private equity funds:** The primary goal of these Funds is to generate returns for investors that exceed private equity industry benchmarks and are commensurate with asset class risk through the construction of a portfolio of opportunistic, highly performing private equity investments. Investments that fund may undertake include early-stage venture capital, later-stage growth financings, leveraged buyouts of medium and large-sized companies, mezzanine investments, PIPES and investments in companies that are being taken private. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be liquidated over five to 10 years. The fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments. Once a buyer has been identified, the investee fund's management is required to approve of the buyer before the sale of the investments can be completed.

**5. Fixed Income funds:** The primary goal of these Funds is to create alpha by sourcing proprietary opportunities, avoiding capital loss, buying securities below their intrinsic value and selling securities above their intrinsic value. Firms look for opportunities that are currently mispriced, based on fundamentals or potentially an event that may improve the price of the holding.

**6. Equity funds:** The primary goal of these Funds is employ a private equity approach to public market investing which seeks to deliver superior returns through a value-oriented investment strategy focusing on companies that are (or should be) implementing strategic change.

**Securities Lending Program**

The Fund, pursuant to a Securities Lending Authorization Agreement, has authorized J.P. Morgan Bank and Trust Company (J.P. Morgan) to act as the Fund's agent in lending the Fund's securities to approved borrowers. J.P. Morgan, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, J.P. Morgan lent, on behalf of the Fund, certain securities of the Fund held by J.P. Morgan chase bank, N.A. as custodian and received cash or other collateral including securities issued or guaranteed by the United States, U.K., and Eurozone governments. J.P. Morgan does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 102% or 105% of the market value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, J.P. Morgan had an obligation to indemnify the Fund in the event of default by a borrower. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration or notice of default of the borrower.

During the fiscal year, the Fund and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested in a separately managed account based upon the investment guidelines established by the Fund. As of June 30, 2016 the weighted average maturity was 48 days and the final maturity was 351 days.
Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower.

On June 30, 2016, the Fund had no credit risk exposure to borrowers.

As of June 30, 2016, the fair value of securities on loan was $323.5 million. Associated collateral totaling $331.3 million was comprised of cash which was invested in a separately managed account based upon the investment guidelines established by the Pension Fund. As of June 30, 2016, the invested cash collateral was $331.0 million and is valued at amortized cost.

**f. INVESTMENT ADVISORS**

The Fund utilizes investment advisors to manage long-term debt, real estate, private market, and equity portfolios. To be eligible for consideration, investments must meet criteria set forth in governing laws and regulations.

**g. NET PENSION LIABILITY**

The components of the net pension liability as of June 30, 2016 were as follows:

| | |
|---|---|
| Total Pension Liability | $ 10,877,209,958 |
| Plan Fiduciary Net Position | 4,357,975,073 |
| Collective Net Pension Liability | $ 6,519,234,885 |
| Plan Fiduciary Net Postion as a Percentage of the Total Pension Liability | 40.1% |

Actuarial assumptions:

The total pension liability was determined by an actuarial valuation as of June 30, 2015 and was rolled forward to June 30, 2016. The June 30, 2015 used the following actuarial assumptions, applied to all periods including the measurement period:

| | |
|---|---|
| Actuarial Cost Method: | Entry Age Normal |
| Investment Rate of Return: | 7.75% compounded annually, net of expenses |
| Salary Increases: | Age based table |

- The investment return assumption was changed from 7.80% from the prior year valuation to 7.75% for the current year valuation.

- To recognize the expense of the benefits payable under the Pension Adjustment Fund, the actuarial liabilities have been increased 0.54%. This estimate is based on the statistical average expected value of benefits.
- The mortality rates were based on the RP 2000 Healthy Annuitant Mortality Table for males and females with adjustments for mortality improvements using Scale AA with a five year set-back for Municipal males and females and a 2 year set-back for Police and Fire males and females.

The measurement date for the net pension liability is June 30, 2016. Measurements are based on the fair value of assets as of June 30, 2016 and the Total Pension Liability as of the valuation date, July 1, 2015 updated to June 30, 2016. The roll-forward procedure included the addition of service cost and interest cost offset by actual benefit payments. There were actuarial experience losses during the year of approximately $152 million which includes the loss due to the Pension Adjustment Fund payment of $30 million. In addition, the Board adopted recommended assumption changes, including:

- Decrease in the expected long-term return on assets from $7.80% to 7.75%
- Increase the load on valuation pay from 4% to 6% for Police participants to account for stress pay and for Fire participants to account for premium pay.

The combined effect of these assumption changes increased the TPL by approximately $85 million as a year-end value. The pension plan's fiduciary net position has been determined on the same basis used by the pension plan.

**Long-term expected rate of return:** The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see discussion of pension plan's investment policy) are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|---|---|
| US Equity | 7.90% |
| Non-US Equity – Developed | 7.60% |
| Non-US Equity – Emerging | 7.20% |
| ACWI Ex-US | 7.30% |
| Broad Fixed Income | 2.80% |
| Global Aggregate | 1.70% |
| Emerging Market Debt | 5.80% |
| High Yield | 5.20% |
| Universal | 3.20% |
| 91 Day T-bills | 0.20% |
| Bank Loans | 4.70% |
| Opportunistic Credit | 2.05% |
| Real Assets – Public REITS | 7.20% |
| Real Assets – Private Real Estate | 12.70% |
| Real Assets – MLP's | 7.80% |
| Private Equity | 10.95% |
| Hedge Fund | 5.50% |

The above table reflects the expected (7-10 year) real rate of return for each major asset class. The expected inflation rate is projected at 0.84% for the same time period.

**Discount Rate:** The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

**Sensitivity of the net pension liability**: The following presents the net pension liability of the System, calculated using the discount rate of 7.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

**Sensitivity of Collective Net Pension Liability to changes in Discount Rate**

| | 1% Decrease 6.75% | Discount Rate 7.75% | 1% Increase 8.75% |
|---|---|---|---|
| Total Pension Liability | $ 11,968,855,837 | $ 10,877,209,958 | $ 9,946,862,734 |
| Plan Fiduciary Net Position | 4,357,975,073 | 4,357,975,073 | 4,357,975,073 |
| Collective Net Pension Liability | $ 7,610,880,764 | $ 6,519,234,885 | $ 5,588,887,661 |
| Plan Fiduciary Net Postion as a Percentage of the Total Pension Liability | 36.4% | 40.1% | 43.8% |

## h. GUARANTEE OF BENEFITS

Benefits under the Fund are guaranteed by statute. In the event that employee contributions do not equal required benefits, the City's General Fund must provide any shortfall.

## i. PARTICIPATION IN THE PENSION FUND

The trustees for the Fund are also members of the Fund and as such, are subject to the provisions of the Fund as described in the notes to these financial statements.

## j. SUBSEQUENT EVENTS

Management evaluated subsequent events through January 11, 2017 the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to January 11, 2017 that provided , additional evidence about conditions that existed at June 30, 2016, have been recognized in the financial statements for the year ended June 30, 2016. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2016.

## k. REPORTING INFORMATION FOR PARTICIPATING EMPLOYERS

**Changes in Collective Net Pension Liability:** The following table shows the changes in total pension liability (TPL), the plan fiduciary net position (i.e., fair value of the System assets) (FNP), and the net pension liability (NPL) during the measurement period ending on June 30, 2016.

**Change in Collective Net Pension Liability**

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| **Balances at 6/30/2015** | $ 10,578,457,204 | $ 4,674,252,000 | $ 5,904,205,204 |
| **Changes for the year:** | | | |
| Service Cost | 148,370,075 | | 148,370,075 |
| Interest | 802,659,333 | | 802,659,333 |
| Changes in benefits | 0 | | 0 |
| Differences between expected and actual experience | 151,918,733 | | 151,918,733 |
| Changes of assumptions | 85,147,737 | | 85,147,737 |
| Contributions - employer | | 660,246,511 | (660,246,511) |
| Contributions - member | | 67,055,003 | (67,055,003) |
| Net investment income | | (145,681,480) | 145,681,480 |
| Benefit payments | (889,343,124) | (889,343,124) | 0 |
| Administrative expense | | (8,553,837) | 8,553,837 |
| **Net Changes** | 298,752,754 | (316,276,927) | 615,029,681 |
| **Balances at 6/30/2016** | $ 10,877,209,958 | $ 4,357,975,073 | $ 6,519,234,885 |

**Employer's Proportionate Shares**: GASB 68 requires that the proportionate share for each employer be determined based upon the "employer's projected long-term contribution effort to the pension … as compared to the total long-term contribution effort to all employers". In addition to the City, three governmental agencies currently participate in the system, PHDC, PPA, and PMA. The method of allocation is based on the ratio of quasi-agency contributions in proportion to total contributions by plan.

**Pension amounts by employer:** The following schedule presents the pension amounts for each participating employer: Philadelphia Parking Authority (PPA), Philadelphia Municipal Authority (PMA), Philadelphia Housing Development Corporation (PHDC), and the City of Philadelphia (City).

**Schedule of Pension Amounts by Employer**

| | For the year ended | PPA | PMA | PHDC | City | Total |
|---|---|---|---|---|---|---|
| Collective Pension Expense | | $ 25,387,890 | $ 358,942 | $ 2,451,900 | $ 760,854,021 | $ 789,052,753 |
| Change in Proportion | | 10,414,416 | 282,118 | 712,826 | (11,409,360) | 0 |
| Contribution Difference | | 2,932,864 | 18,215 | 204,649 | (3,155,728) | 0 |
| Employer Pension Expense | | 38,735,170 | 659,275 | 3,369,375 | 746,288,933 | 789,052,753 |
| Net Pension Liability | 6/30/15 | 145,684,531 | 1,486,220 | 15,315,633 | 5,741,718,820 | 5,904,205,204 |
| Net Pension Liability | 6/30/16 | 209,757,354 | 2,965,619 | 20,257,849 | 6,286,254,060 | 6,519,234,882 |
| Change in Net Pension Liability | | 64,072,823 | 1,479,399 | 4,942,216 | 544,535,240 | 615,029,678 |
| Deferred Outflows | 6/30/15 | 12,276,927 | 106,529 | 1,161,645 | 340,540,743 | 354,085,844 |
| Deferred Outflows | 6/30/16 | 65,741,046 | 1,275,353 | 5,267,031 | 806,510,385 | 878,793,815 |
| Change in Deferred Outflows | | 53,464,119 | 1,168,824 | 4,105,386 | 465,969,642 | 524,707,971 |
| Deferred Inflows | 6/30/15 | - | - | - | (3,908,051) | (3,908,051) |
| Deferred Inflows | 6/30/16 | - | - | - | (42,392,584) | (42,392,584) |
| Change in Deferred Intflows | | 0 | 0 | 0 | (38,484,533) | (38,484,533) |
| Employer Contributions | | 28,126,464 | 348,700 | 2,532,545 | 629,238,802 | 660,246,511 |
| Employer Pension Expense | | 38,735,170 | 659,275 | 3,369,375 | 746,288,933 | 789,052,753 |

### Reconciliation of Net Pension Liability

The following table reconciles the Collective Net Pension Liability to the amount reported in the Primary Government Net Pension Liability in Exhibit I.

**Reconciliation of Collective Net Pension Liability to the Primary Government Net Pension Liability**
(Amounts in thousands of USD)

| Municipal Pension Fund | Proportionate Share of NPL | Discretely Presented Component Units | City and Blended Component Units |
|---|---|---|---|
| City | $ 6,286,254 | $ - | $ 6,286,254 |
| PPA | 209,757 | 209,757 | |
| PMA | 2,966 | | 2,966 |
| PHDC (1) | 20,258 | 20,258 | |
| Collective Net Pension Liability | 6,519,235 | 230,015 | 6,289,220 |
| **State Pension Fund** | | | |
| PICA | | | 1,236 |
| City's Primary Government Net Pension Liability (Exhibit I) | | | $ 6,290,456 |

(1) PHDC does not appear in the Component Unit Financial Statements (Exhibit XI Statement of Net Position and Exhibit XII Statement of Activities) due to immaterially.

### Deferred Outflows by Employer

The following table summarizes the deferred outflows allocated to each employer for experience, assumptions changes, investment returns and contribution differences.

**Schedule of Employers' Deferred Outflows**

| | PPA | PMA | PHDC | City | Total |
|---|---|---|---|---|---|
| Proportionate Shares | 3.22% | 0.05% | 0.31% | 96.43% | 100% |
| Experience | $ 4,227,615 | $ 59,771 | $ 408,293 | $ 126,698,103 | $ 131,393,782 |
| Assumption Changes | 2,829,290 | 40,001 | 273,246 | 84,791,466 | 87,934,003 |
| Investment Return | 19,854,430 | 280,709 | 1,917,492 | 595,020,815 | 617,073,446 |
| Proportion Change | 31,243,249 | 846,353 | 2,138,476 | - | 34,228,078 |
| Contribution Difference | 7,586,463 | 48,519 | 529,524 | - | 8,164,506 |
| | $ 65,741,047 | $ 1,275,353 | $ 5,267,031 | $ 806,510,384 | $ 878,793,815 |

### Deferred Inflows by Employer

The following table summarizes the deferred inflows allocated to each employer for experience, assumptions changes, investment returns and contribution differences.

**Schedule of Employers' Deferred Inflows**

| | PPA | PMA | PHDC | City | Total |
|---|---|---|---|---|---|
| Proportionate Shares | 3.22% | 0.05% | 0.31% | 96.43% | 100% |
| Experience | $ - | $ - | $ - | $ - | $ - |
| Assumption Changes | - | - | - | - | 0 |
| Investment Return | - | - | - | - | 0 |
| Proportion Change | - | - | - | (34,228,078) | (34,228,078) |
| Contribution Difference | - | - | - | (8,164,506) | (8,164,506) |
| | $ - | $ - | $ - | $ (42,392,584) | $ (42,392,584) |

**Recognition of Deferred Outflows and Inflows by Employer**

The following table shows the net amount of deferred outflows and inflows to be recognized by each participating employer in each of the next five years and the total thereafter.

**Schedule of Employers' Recognition of Deferred Outflows and Inflows**

| For Year Ending | PPA | PMA | PHDC | City | Total |
|---|---|---|---|---|---|
| 2017 | $ 21,464,807 | $ 415,101 | $ 1,701,446 | $ 228,710,459 | $ 252,291,813 |
| 2018 | 21,464,807 | 415,102 | 1,701,447 | 228,710,457 | $ 252,291,813 |
| 2019 | 19,584,595 | 399,528 | 1,552,498 | 209,991,227 | $ 231,527,848 |
| 2020 | 3,226,838 | 45,622 | 311,640 | 96,705,657 | $ 100,289,757 |
| 2021 | - | - | - | - | $ - |
| Thereafter | - | - | - | - | $ - |
| Total | $ 65,741,047 | $ 1,275,353 | $ 5,267,031 | $ 764,117,800 | $ 836,401,231 |

**(2) Philadelphia Gas Works (PGW) Plan**

**a. PLAN DESCRIPTION**

The City of Philadelphia (the "City"), maintains two pension systems providing benefits for its employees and several of its component units: The City's pension system includes the Municipal Pension (the "Fund"); and the Gas Works Plan (the "Plan"). Each pension system is a separate Public Employee Retirement System ("PERS") with a separate oversight body and is financially independent of the others. In each case, the City is required by the Philadelphia Home Rule Charter to maintain an actuarially sound pension and retirement system.

There are no component units of the Plan. In determining its oversight responsibility, the Plan considers financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability of fiscal matters.

The Plan consists of Philadelphia Gas Works ("PGW" or the "Company"), a component unit of the City and is included in the City's Comprehensive Annual Financial Report as a trust and agency fund.

The Plan is a single employer defined benefit PERS. The Plan provides pension benefits for all eligible employees of Philadelphia Gas Works, and other eligible class employees of Philadelphia Facilities Management Corporation (PFMC) and Philadelphia Gas Commission (PGC).

The Plan is administered by the Sinking Fund Commission of the City of Philadelphia (the "Commission"). The Commission is responsible for the administration of the Plan. Certain administrative aspects of the Plan are delegated to PGW. The Commission acts in a fiduciary matter with regards to the assets of the Plan. The Commission was established by the City Charter and consists of the Director of Finance, the City Controller and an experienced banker or investment banker appointed by the Mayor. Alternates for these members are allowed by written authorization of the Mayor.

As of the latest available actuarial valuation (June 30, 2016), the Plan's membership consisted of:

| | |
|---|---|
| Active participants | 1,251 |
| Retired participants | 2,192 |
| Vested termininated participants | 329 |
| Total Plan participants | 3,772 |

The Plan is currently open to all employees of PGW.

### b. BENEFITS PROVIDED

*Normal Retirement Benefits:* The Plan provides retirement benefits as well as death and disability benefits. Retirement benefits are vested 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 percent of the first $6,600 of Final Average Earnings plus 1.75 percent of the excess of Final Average Earnings over $6,600, times years of credited service, with a maximum of 60 percent of the highest annual earnings during the last 10 years of credited service, applicable to all participants; or,

- 2 percent of total earnings received during the period of credited service plus 22.5 percent of the first $1,200 of such amount, applicable only to participants who were employees on or prior to March 24, 1967.

*Death Benefits:* Before retirement, spouses of deceased active participates or of former participants are entitled to vested benefits provided such participants died after having attained age 45 and completed at least 15 years of Credited Service and whose age plus years of credited service equals at least 65 years of whom have completed at least 15 years of Credited Service regardless of age. The benefit payable is an amount for the spouse's remaining lifetime equal to the amount the beneficiary of the participant would have received had the participant retired due to a disability on the day preceding his/her death and elected the 100% contingent annuitant option.

*Disability Benefits:* Disability benefits are the same as the Normal Retirement Benefits and are based on Final Average Compensation and Credited Service as of the date of disability.

Final Average Earnings are the employees' average pay, over the highest five years of the last ten years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit. In addition, employees with 30 years of credited service are eligible to select early retirement with no reduction in benefits.

Covered employees (those employees who are participants in the Plan as of May 21, 2011) are not required to contribute to the Plan. Contributing employees (those employees who became participants) are required to contribute to the Plan (see Note c, Employee Contributions). The Company is required by statute to contribute the amounts necessary to finance the Plan. Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance. Benefits under the Plan are guaranteed by statute. In the event employer contributions are not sufficient to pay required benefits, the City's General fund must provide any shortfall.

### c. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

**Basis of Accounting**
Plan financial statements are prepared using 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 Policy**
The Commission maintains a Statement of Investment Guidelines ("Policy") consistent with the needs of the Plan. The latest Policy was approved by the Commission at its meeting on November 12, 2014. The Policy serves as the chief communication tool of the Commission with vendors and investment managers. The Policy defines the need for the Policy, the goals of the Plan, the asset allocation, the investment guidelines, including prohibited investments, as well as the objectives for each manager and benchmarks for each type of investment. Additionally, it defines the necessary communication and responsibilities of each party, including the Commission, the investment managers, the custodian and the consultant. The Policy can only be revised or changed by a vote by the Commission. For a fuller description of the Investment Policy, see the online version at: http://www.phila.gov/Treasurer/pdfs/PGWPP.

**Investments**
The Plan reports investments at their fair value in the statement of fiduciary net position. Unrealized gains and losses are included in the statement of changes in fiduciary net position. Securities traded on national or international exchanges are recorded at the last reported sales price at current exchange rates.

Investment income is recognized as earned. Gains and losses on sales and exchanges are recognized on the transaction date. Net realized gains on sales amounted to $11,166,030 for the year ended June 30, 2016. Net unrealized losses for the year ended June 30, 2016 totaled $22,208,938.

**Income Taxes**
The Plan is not subject to Federal, state or local income taxes.

**Deposits and Investments**
The Plan is authorized to maintain a diversified portfolio in the following types of investments: U.S. Treasury or agency obligations, corporate debt and equity securities, and foreign debt and equity securities. City ordinances and sinking fund policies contain provisions which preclude the Plan from investing in organizations that conduct business in certain countries and industries and also impose limitations on the amounts invested in certain types of securities.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The annual money-weighted return for the year ended June 30, 2016 was 0.02 percent.

The Pension Plan utilizes both equity and fixed-income investments consistent with the Policy as described above. As of June 30, 2016, the Plan had investments of approximately $470 million, comprised of $311 million in equities and $159 million in fixed-income investments. The ratio of equities to fixed income is 66 percent to 34 percent which is in line with the Policy guidelines of 60-70 percent equities and 30-40 percent fixed income.

The Commission employs third-party vendors to manage the assets of the Plan as well as perform other needed services. As of June 30, 2016, the Commission employed the following investment managers and vendors:

| Manager | Mandate | Balance (millions) |
|---|---|---|
| Equity Managers | | |
| RhumbLine Asset Management | Domestic Large Cap Index | $ 102.3 |
| Fred Alger Management, Inc | Domestic Large Cap Growth | 34.0 |
| O'Shaughnessy Asset Management | Domestic Large Cap Value | 35.4 |
| Northern Trust Company | Domestic Large Cap Index | 30.5 |
| Harding-Loevner | International Growth (fund) | 24.4 |
| Mondarian International Equity | International Value (fund) | 22.8 |
| Eagle Asset Management | Domestic Small Cap Growth | 21.3 |
| Dimensional Fund Advisors | Emerging Markets (fund) | 21.6 |
| Vaughan Nelson | Domestic Small Cap Value | 19.0 |
| | | $ 311.3 |
| Bond Managers | | |
| Weaver Barksdale | Core | 38.2 |
| Logan Circle Partners | Core Plus | 35.2 |
| Garcia Hamilton | Intermediate | 45.4 |
| Lazard Asset Management | Intermediate Plus | 40.2 |
| | | 159.0 |
| Other Assets | | 0.2 |
| Total | | $ 470.5 |

During Fiscal year 2016, the Commission changed investment managers to reduce costs and increase returns for the Plan. Accordingly, the Commission moved the funds managed by one equity manager to O'Shaughnessy Asset Management.

At its quarterly meetings, the Commission, with the assistance of PFM Asset Management LLC monitors the performance of the investment managers over various periods of time, and will change a manager when the Commission deems it necessary. Each of the managers and other vendors (except for those marked 'fund') are contracted for a period of one year, with three one-year extensions at the discretion of the Commission.

**Due from and to Brokers**
Due from brokers represents the value of investments sold by brokers prior to year-end, for which the settlement date of the sale occurred subsequent to year end. Similarly, due to brokers represents the value of investments purchased by brokers prior to year-end, for which the settlement date of the purchase occurred subsequent to year end.

**Funding Policy**
The Plan's 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. Level percentages of payroll employer contributions rates are determined using the Projected Unit Credit actuarial funding method. The most recent annual actuarial valuation is as of June 30, 2016 and the contribution rate as of percentage of payroll was 29.14 percent.

**Employee Contributions**
In December 2011 the City of Philadelphia City Council approved Bill No. 110830 "An Ordinance" effecting PGW workers hired on or after May 21, 2011. The ordinance states, in part, that employees commencing employment on or after May 21, 2011 shall become a participant in the Plan only upon completion of an irrevocable written election to participate in the Plan. Such election must be made within thirty days after their employment commencement date, or if later, thirty days after the effective date of the ordinance. All such employees who elect to participate in the Plan are deemed contributing participants.

Contributing participants (Non-covered employees) in the Plan are required to make annual contributions totaling 6 percent of their compensation. Such contributions are made by means of periodic payroll deductions determined by the sponsor. Contributing participants are 100 percent vested in their contribution. All participants in the Plan, including contributing participants, have no vested interest in their accrued benefit until they have 5 years of credited service, at which time they become 100 percent vested in their accrued benefit. Contributions from contributing participants for the Plan year ending June 30, 2016 totaled $602,287.

In addition, newly hired employees who commence employment on or after May 21, 2011 who opt out of the Plan will enter into the newly formed Philadelphia Gas Works Employees' Defined Contribution Plan, a tax qualified defined contribution plan pursuant to Section 401(a) of the Internal Revenue Code of 1986 as amended. The defined contribution plan provides for an employer contribution equal to 5.5% of applicable wages. Assets of this plan are not a part of the City of Philadelphia Gas Works Retirement Reserve Fund and are not reported on in these financial statements.

**Benefits Payable**
The pension benefits are paid monthly. As a result, there are no pension benefits payable at June 30, 2016.

**Trend Information**
Historical trend information related to the Plan is presented in the Supplemental Information section. The information is presented to enable the reader to assess the progress made by the Plan in accumulating sufficient assets to pay pension benefits as they become due.

**Investment Advisors**
The Fund utilizes numerous investment advisors to manage debt and equity portfolios. The Sinking Fund Commission must approve all investment advisors.

**Related Parties**
The Sinking Fund Commission is the trustee of the investments of the Plan. The City of Philadelphia Department of Finance provides bookkeeping services for the Plan. Philadelphia Gas Works makes monthly benefit payments to retirees on behalf of the Plan and incurs administrative expenses on behalf of the Plan. Benefits payments made by PGW and administrative costs incurred by PGW on behalf of the Plan amounted to $50,446,550 and $189,907 respectively for the year ended June 30, 2016.

**Fair Value of Financial Instruments**
The carrying values of financial instruments including interest and dividends receivable, due from brokers, accounts payable, and amounts due to PGW and brokers approximate their fair market value due to the relative short maturity of these instruments.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at June 30, 2016, and the reported amounts of revenues and expenses during the year then ended. Actual results could differ from those estimates. Significant estimate includes the valuation of investments without quoted prices in an active market for identical assets and the actuarial estimates for Plan future benefit obligations.

**d. DISCLOSURE ABOUT FAIR VALUE OF FINANICAL INSTRUMENTS**

The accounting pronouncement on fair value measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. Such inputs include quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Corporate bonds | $ - | $ 46,427,703 | $ - | $ 46,427,703 |
| Common and preferred stock | 298,386,454 | 17,274,269 | 312 | 315,661,035 |
| U.S. government securities | 35,964,395 | 19,659,216 | - | 55,623,611 |
| Financial Agreements | - | - | 35,454 | 35,454 |
| Collateralized mortgage obligations | - | 42,850,766 | - | 42,850,766 |
| Foreign entity's debt | - | 5,594,530 | 220,768 | 5,815,298 |
| Municipal obligations | - | 4,037,644 | - | 4,037,644 |
| | $ 334,350,849 | $ 135,844,128 | $ 256,534 | $ 470,451,511 |

The following is a summary of activity for the year ended June 30, 2016 for investments measured at fair value based on unobservable measure criteria:

| | |
|---|---|
| Balance, beginning of year | $ 266,735 |
| Sales | (42,028) |
| Investment income received included in income | 10,554 |
| Unrealized gain included in income | 21,054 |
| Realized gain included in income | 219 |
| Balance, end of year | $ 256,534 |

**e. ADVANCE FROM THE PHILADELPHIA GAS WORKS**

Payments to beneficiaries are made by PGW through its payroll system. The amount due to PGW at June 30, 2016 of $4,577,145 represents the cumulative excess of payments made to the retirees and administrative expenses incurred by PGW, over the sum of the Company's required contribution, and reimbursements received from the Plan.

**f. NET PENSION LIABILITY**

The components of the net pension liability of the City of Philadelphia Gas Works Retirement Reserve Fund at June 30, 2016, were as follows (dollar amounts in thousands):

| | | |
|---|---|---|
| Total pension liability | $ | 779,351 |
| Plan fiduciary net position | | (483,259) |
| Net pension liability | $ | 296,092 |
| Plan fiduciary net position as a percentage of the total pension liability | | 62.01% |

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions:

| | |
|---|---|
| Salary increases | 4.5 percent for the current year and for subsequent years |
| General inflation | 2 percent |
| Investment rate of return including inflation | 7.30 percent, net of pension plan investment expense, |

Mortality rates were based on the RP-2014 Combined Mortality Table for Males and Females with adjustments for mortality improvements based on Scale MP-2015.

The actuarial assumptions used for the Plan year ended June 30, 2016 were based on the results of an actuarial experience study for the period September 1, 2015 – June 30, 2016.

**Change in Assumptions**

Total pension liability reflects an increase of approximately $27 million as a result of change in actuarial assumptions for the Plan year ended June 30, 2016. The mortality table was changed from RP-2000 IRS PPA @ 2014 Mortality Tables for Males and Females to the RP-2014 mortality table generationally projected with Scale MP-2015 to better reflect actual and future mortality experience. The discount rate of the Plan was reduced from 7.65 to 7.30 for the year ended June 30, 2016.
.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.30 percent. The projection of cash flows used to determine the discount rate assumed the contributions from Plan members will be made at the current contribution rate and that contributions from PGW will be made based on the current, actuarially determined funding policy. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following table illustrates the impact of interest rate sensitivity on the Net Pension Liability. The net pension liability as of June 30, 2016, the most recent actuarial report, is calculated using the discount rate of 7.30 percent, as well as the Plan's net pension liability if it were calculated using a discount rate that is 1 percent lower (6.30 percent) or 1 percent higher (8.30 percent) than the current rate (dollar amounts in thousands):

| | 1% Decrease 6.30% | Current Rate 7.30% | 1% Increase 8.30% |
|---|---|---|---|
| Total pension liability | $ 870,319 | $ 779,351 | $ 703,554 |
| Plan fiduciary net position | (483,259) | (483,259) | (483,259) |
| Net pension liability | $ 387,060 | $ 296,092 | $ 220,295 |

## g. RISK AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of fiduciary net position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

**Interest Rate Risk:**
Interest rate risk is the largest risk faced by an investor in the fixed income market. The price of a fixed income security generally moves in the opposite direction of the change in interest rates. Securities with long maturities are highly sensitive to interest rate changes. The Plan's fixed income investments are as follows:

(in thousands of USD)

| | Below 1 year | 1 to 3 years | 3 to 5 years | 5 to 10 years | 10 to 15 years | 15 to 20 years | 20 to 25 years | 25 years and over |
|---|---|---|---|---|---|---|---|---|
| US Govt. Treasuries | 2,287 | 5,971 | 2,191 | 27,178 | - | - | - | 1,303 |
| US Govt. Agencies | - | 18,537 | 633 | - | 490 | - | - | - |
| Municipal Bonds | - | 284 | 438 | 1,894 | 1,101 | - | 321 | - |
| Corporate Bonds | $ 1,077 | $ 7,872 | $ 5,122 | $ 19,657 | $ 1,911 | $ 2,174 | $ 2,395 | $ 3,480 |
| CDO's | - | 2,077 | 929 | 4,851 | 1,801 | 8,229 | 4,329 | 20,403 |
| Foreign Debt | - | 853 | 1,315 | 2,475 | - | 228 | - | 784 |
| | $ 3,364 | $ 35,594 | $ 10,628 | $ 56,055 | $ 5,303 | $ 10,631 | $ 7,045 | $ 25,970 |

**Custodial Credit Risk:**
In the event of counter-party failure, the Plan may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities held by the counterparty or counterparty's trust department, are uninsured and are not registered in the name of the Plan. The Plan requires that all investments be clearly marked as to ownership, and to the extent possible, be registered in the name of the Plan. Certain investments may be held by the managers in the Plan's name.

**Credit Risk:**
Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Plan's rated debt investments as of June 30, 2016 were rated by Moody's, a nationally recognized statistical rating agency and are presented below using Moody's rating scale:

(in thousands of USD)

| Moody's Credit Rating | U.S. Government Securities | U.S. Government Agency Securities | Municipal Bonds | Corporate Bonds | Collateralized Debt Obligations | Foreign Debt | Total |
|---|---|---|---|---|---|---|---|
| A1 | $ - | $ - | $ - | $ 1,956 | $ 671 | $ 357 | $ 2,984 |
| A2 | - | - | - | 3,499 | 463 | 386 | 4,348 |
| A3 | - | - | 321 | 9,234 | 91 | 502 | 10,148 |
| AA1 | - | - | 749 | 1,093 | 161 | - | 2,004 |
| AA2 | - | - | - | 2,099 | - | 217 | 2,316 |
| AA3 | - | - | 2,251 | 2,376 | - | 203 | 4,830 |
| AAA | 38,700 | 17,689 | - | - | 2,183 | 334 | 58,905 |
| B1 | - | - | - | - | - | 283 | 283 |
| B2 | - | - | - | 135 | - | - | 135 |
| B3 | - | - | - | - | - | 106 | 106 |
| BA1 | - | - | - | 2,311 | 146 | 510 | 2,967 |
| BA2 | - | - | - | 762 | - | - | 762 |
| BA3 | - | - | - | 107 | - | 181 | 289 |
| BAA1 | - | - | 438 | 7,942 | 184 | 224 | 8,786 |
| BAA2 | - | - | 279 | 4,319 | 313 | 1,095 | 6,005 |
| BAA3 | - | - | - | 6,209 | 321 | 533 | 7,062 |
| CAA1 | - | - | - | 566 | 48 | - | 614 |
| CAA2 | - | - | - | 110 | - | - | 110 |
| N/R | 231 | 1,970 | - | 973 | 38,039 | 725 | 41,938 |
| | $ 38,931 | $ 19,659 | $ 4,038 | $ 43,691 | $ 42,620 | $ 5,656 | $ 154,592 |

**Concentration of Credit Risk:**

Concentration of credit risk is the risk of substantial loss if investments are concentrated in one issuer. As of June 30, 2016 no single investment, not guaranteed by the U.S. government exceeds 5 percent of the Plan's net fiduciary financial position.

## B. DISCRETELY PRESENTED COMPONENT UNITS

### (1) Philadelphia Gas Works

**a. Plan Description**

See Footnote IV. A. (2) Philadelphia Gas Works (PGW) Plan – a. Plan Description

**b. Benefits Provided**

See Footnote IV. A. (2) Philadelphia Gas Works (PGW) Plan – b. Benefits Provided

**c. Employees Covered by Benefit Terms**

See Footnote IV. A. (2) Philadelphia Gas Works (PGW) Plan – a. Plan Description

**d. Contributions**

See Footnote IV. A. (2) Philadelphia Gas Works (PGW) Plan – d. Summary of Significant Accounting Policies and Plan Asset Matters – Funding Policy and Employee Contributions

**e. Net Pension Liability**

The Company's net pension liability as of August 31, 2016 and 2015 were measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and June 30, 2015, respectively.

The total pension liability was determined using the entry age normal actuarial method and the following actuarial assumptions:

| | 2016 | 2015 |
|---|---|---|
| Inflation | 2.00% | 2.00% |
| Salary increases | 4.50 | 4.50 |
| Investment rate of return | 7.30 | 7.65 |

*Mortality rates*. Mortality rates for FY 2015 were based on the RP-2014 mortality tables for males and females generationally projected with scale MP-2014. Mortality rates for FY 2016 were based on the RP-2014 mortality tables for males and females generationally projected with scale MP-2015.

*Long-term rate of return*. The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for FY 2016 are summarized in the following table:

| Asset class | Minimum | Maximum | Target | Expected annual return |
|---|---|---|---|---|
| Domestic equity | 35.0% | 55.0% | 45.0% | 9.0% |
| International equity | 10.0 | 30.0 | 20.0 | 9.1 |
| Fixed Income | 25.0 | 45.0 | 35.0 | 5.6 |
| Cash equivalents | — | 10.0 | — | — |
| | | | 100.0% | |

*Discount rate*. The discount rate used to measure the total pension liability at June 30, 2016 and 2015 was 7.30% and 7.65%, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Company contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee contributions. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Liability**
(Thousands of U.S. dollars)

| | Increase (decrease) | | |
|---|---|---|---|
| | **Total pension liability (a)** | **Plan fiduciary net position (b)** | **Net pension liability (a)-(b)** |
| Balances at September 1, 2014 | $ 677,401 | $ 513,145 | $ 164,256 |
| Changes for the year: | | | |
| Service cost | 4,890 | - | 4,890 |
| Interest | 52,377 | - | 52,377 |
| Differences between expected and actual experience | 17,961 | - | 17,961 |
| Contributions-employer | - | 21,106 | (21,106) |
| Contributions-employee | - | 393 | (393) |
| Net investment income | - | 24,472 | (24,472) |
| Benefit payments, including refunds of employee contributions | (46,917) | (46,917) | - |
| Administrative expenses | - | (1,480) | 1,480 |
| Change in assumptions | 44,876 | - | 44,876 |
| Net changes | 73,187 | (2,426) | 75,613 |
| Balances at August 31, 2015 | $ 750,588 | $ 510,719 | $ 239,869 |
| | | | |
| Balances at September 1, 2015 | $ 750,588 | $ 510,719 | $ 239,869 |
| Changes for the year: | | | |
| Service cost | 5,399 | - | 5,399 |
| Interest | 55,903 | - | 55,903 |
| Differences between expected and actual experience | (8,840) | - | (8,840) |
| Contributions-employer | - | 21,123 | (21,123) |
| Contributions-employee | - | 602 | (602) |
| Net investment income | - | 2,872 | (2,872) |
| Benefit payments, including refunds of employee contributions | (50,447) | (50,447) | - |
| Administrative expenses | - | (1,611) | 1,611 |
| Change in assumptions | 26,748 | - | 26,748 |
| Net changes | 28,763 | (27,461) | 56,224 |
| Balances at August 31, 2016 | $ 779,351 | $ 483,258 | $ 296,093 |

*Sensitivity of the net pension liability to changes in the discount rate*:
The following presents the net pension liability of the Company at June 30, 2016, calculated using the discount rate of 7.30%, as well as what the Company's net pension liability as of August 31, 2016 would be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage point higher (8.30%) than the current rate:

| | **1% Decrease 6.30%** | **Current discount rate 7.30%** | **1% Increase 8.30%** |
|---|---|---|---|
| Net pension liability (thousands of U.S. dollars) | $ 387,060 | $ 296,093 | $ 220,296 |

The following presents the net pension liability of the Company at June 30, 2015, calculated using the discount rate of 7.65%, as well what the Company's net pension liability as of August 31, 2015 would have been if it were calculated using a discount rate that is 1-percentage-point lower (6.65%) or 1-percentage point higher (8.65%) than the current rate:

| | 1% Decrease 6.65% | Current discount rate 7.65% | 1% Increase 8.65% |
|---|---|---|---|
| Net pension liability (thousands of U.S. dollars) | $ 326,719 | $ 239,869 | $ 167,415 |

*Pension Plan fiduciary net position.* Detailed information about the Pension Plan's fiduciary net position is available in the separately issued Pension Plan financial report.

**f. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the years ended August 31, 2016 and 2015, the Company recognized pension expense of $62.3 million and $43.7 million, respectively. At August 31, 2016 and 2015, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (thousands of U.S. dollars):

| | August 31, 2016 | | August 31, 2015 | |
|---|---|---|---|---|
| | Deferred outflows of resources | Deferred inflows of resources | Deferred outflows of resources | Deferred inflows of resources |
| Differences between expected and actual experience | $ 61,232 | $ - | $ 44,377 | $ - |
| Changes of assumptions | - | - | 33,572 | - |
| Net difference between projected and actual earnings on pension plan investments | 21,278 | - | - | (11,653) |
| Contributions made after measurement date | 5,533 | - | 179 | - |
| Total | $ 88,043 | $ - | $ 78,128 | $ (11,653) |

The $5.5 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of June 30, 2016 will be recognized as a reduction of the net pension liability in FY 2017. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (thousands of U.S. dollars):

**Schedule of Employer's Recognition of Net Deferred Outflows and Deferred Inflows**

| | | |
|---|---|---|
| Fiscal year: | | |
| 2017 | $ | 36,730 |
| 2018 | | 24,617 |
| 2019 | | 14,155 |
| 2020 | | 7,007 |
| 2021 | | - |
| Thereafter | | - |
| Total | $ | 82,509 |

### g. Fair Value Measurements

See Footnote IV. A. (2) Philadelphia Gas Works (PGW) Plan – d. Disclosures About Fair Value of Financial Instruments

## (2) School District of Philadelphia

### a. Plan Description

Public School Employees' Retirement System (the System) is a governmental cost- sharing multiple-employer defined benefit plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSRS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

### b. Benefits provided:

The System provides retirement and disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes- (1) Membership Class T-E (Class T-E) and (2) Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Pennsylvania Public School Code (Code) of multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and T-F members) or who has at least five years of credited services (ten years for Class T-E and T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

**c. Contributions**

Members Contributions:

Active members who joined prior to July 22, 1983, contribute at 5.25 % (Membership Class T-C) or at 6.50 % (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001 contribute at 6.25 % (Membership Class T-C) or 7.50 % (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.50 % (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F Membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer's Contributions:

The School District of Philadelphia' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the PSERS pension plan from the School District were $216,738,487 for the year ended June 30, 2016.

Commonwealth Contributions:

The Commonwealth reimburses the School District 50 percent of the retirement cost for employees hired prior to July 1, 1994 and a percentage equal to the greater of 50 percent or the School District's market value/personal income aid ratio for employees hired after June 30, 1994. The School District's market/personal income aid ratio for Fiscal Year 2016 was 73.63 percent.

**d. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

(a) At June 30, 2016, the District reported a liability of $3,038,612,001 for its proportionate share of the net pension liability of which $2,993,316,218 was recognized. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated using the employer's one-year covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was 7.0151 percent, which was a decrease of 0.5150 percent from its proportion measured as of June 30, 2014.

(b) For the year ended June 30, 2016, the District recognized pension expense of $216,738,487.

(c) At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| *(Dollars Amounts in Thousands)* | **Deferred Outflows of Resources** | **Deferred Inflows of Resources** |
|---|---|---|
| Difference between expected and actual experience | | 12,539 |
| Net difference between projected and actual investment earnings | | 6,150 |
| Change in proportions | | 430,201 |
| Difference between employer contributions and proportionate share of total contributions | | 3,211 |
| Contributions subsequent to the measurement date | 216,738 | |
| Totals: | 216,738 | 452,101 |

Deferred outflows of resources for contributions made subsequent to the measurement date was $216,738,487, and will be recognized as a reduction of net pension liability in the actuarially year ended June 30, 2016.

The $452,101,467 reported as deferred inflows related to pensions will be recognized in pension expense as follows:

| Year ended June 30 | |
|---|---|
| 2017 | 142,831,148 |
| 2018 | 142,831,148 |
| 2019 | 142,831,148 |
| 2020 | 23,608,023 |
| Total | 452,101,467 |

*Actuarial assumptions*

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Public School Employees' Retirement System (PSERs) Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|---|---|---|
| Public markets global equity | 22.50% | 4.80% |
| Private markets (equity) | 15.00% | 6.60% |
| Private real estate | 12.00% | 4.50% |
| Global fixed income | 7.50% | 2.40% |
| U.S. long treasuries | 3.00% | 1.40% |
| TIPS | 12.00% | 1.10% |
| High yield bonds | 6.00% | 3.30% |
| Cash | 3.00% | 0.70% |
| Absolute return | 10.00% | 4.90% |
| Risk parity | 10.00% | 3.70% |
| MLPs/Infrastructure | 5.00% | 5.20% |
| Commodities | 8.00% | 3.10% |
| Financing (LIBOR) | -14.00% | 1.10% |
| | 100.00% | |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**e. *Sensitivity of the* District's *proportionate share of the net pension to changes in the discount rate*:**

The following presents the net liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percenage point higher (8.50%) than the current rate:

| *(Dollars in Thousands)* | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|---|---|---|---|
| District's proportionate share of the net pension liability | 3,745,382 | 3,038,612 | 2,444,571 |

**f. *Pension* plan *fiduciary net position:***

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

**g. *Summary of Significant Accounting Policies***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## 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's funding policy is to pay the net expected benefits for the current retirees. 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. The City's contributions are estimated to be about $107.2 million for fiscal year ending June 30, 2016.

***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 | 136,268 |
| Interest on net OPEB obligation | 11,317 |
| Adjustment to ARC | (10,197) |
| Annual OPEB cost | 137,388 |
| Payments made | (107,200) |
| Increase/(Decrease) in net OPEB Obligation | 30,188 |
| Net OPEB obligation - beginning of year | 266,286 |
| Net OPEB obligation - end of year | 296,474 |

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, 2016 was as follows:

(Amounts in thousands USD)

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2016 | $ 137,388 | 78% | $ 296,474 |
| 6/30/2015 | $ 133,053 | 72% | $ 266,286 |
| 6/30/2014 | $ 129,318 | 52% | $ 228,533 |

***Funded Status and Funding Progress***: As of July 1, 2015, 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 $1.77 billion. The covered annual payroll was $1.54 billion and the ratio of the UAAL to the covered payroll was 114.8%.

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 current plan incorporates the following assumptions; 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, 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. A retired employee is eligible for this benefit if covered for 10 years as an active employee and retired at age 60 with 30 years of service or aged 62 with 10 years of service or 35 years of service regardless of age. Effective November 1, 2013, active employees who become disabled (total and permanent) prior to satisfying the retirement eligibility conditions for postretirement life insurance benefits are no longer eligible for postretirement benefit provided by the District. Employees who were granted disability retirement from PSERS and were approved by the insurance company providing the coverage prior to November 1, 2013 continue to be eligible for postretirement life insurance benefits. An unaudited copy of the single-employer life insurance benefit plan can be obtained by writing to School District of Philadelphia, 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 numbers of eligible participants enrolled to receive such benefits as of June 30, 2016, the effective date of the biennial OPEB valuation, follows. 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 | 12,075 | 45.8 |
| Non-represented | 817 | 47.4 |
| **Retirees** | 10,328 | 77.2 |
| **Disabled** | 69 | 60.3 |
| Total | 23,289 | 57.7 |

**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 District 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, 2016. There was a change in actuarial assumptions since the last biennial actuarial valuation. The payroll growth assumption was eliminated as the District is now using level dollar amortization of the unfunded liability.

The following table shows the elements of **SDP's** annual OPEB cost for the year, the amount paid on behalf of the plan, and changes in **SDP's** net OPEB obligation to the plan:

| | | |
|---|---|---|
| Normal Cost | $ | 84,875 |
| Amortization of Unfunded Actuarial Accrued Liability (UAAL) | | 913,395 |
| Annual Required Contribution (ARC) | | 998,270 |
| Interest on Net OPEB Obligation | | 36,658 |
| Adjustment to the ARC | | (62,342) |
| Annual OPEB Cost | $ | 972,586 |
| | | |
| Net OPEB Obligation as of June 30, 2015 | $ | 1,221,930 |
| | | |
| Annual OPEB Cost | | 972,586 |
| Employer Contributions | | (539,601) |
| Increase/(Decrease) in net OPEB Obligation | $ | 432,985 |
| | | |
| Net OPEB Obligation as of June 30, 2016 | $ | 1,654,915 |

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, 2016 was as follows:

| Year Ended June 30 | Annual OPEB Cost (APC) | Employer Contribution | Percentage of APC Contributed | | Net OPEB Obligation |
|---|---|---|---|---|---|
| 2014 | 990,364 | 567,888 | 57.30% | $ | 810,906 |
| 2015 | 981,837 | 570,813 | 58.10% | $ | 1,221,930 |
| 2016 | $972,586 | $539,601 | 55.50% | $ | 1,654,915 |

**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 School District'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, 2016, the most recent actuarial valuation date, the plan was 0.0% funded. The actuarial accrued liability of $18.4 million and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $18.4 million.

| Most Recent Actuarial Valuation Date | Active Covered Payroll | Unfunded Actuarial Accrued Liability (UAAL) | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|
| 6/30/2016 | $722,662,580 | $18,440,073 | 0.03% |
| 6/30/2014 | 871,663,661 | 18,114,395 | 0.02% |
| 6/30/2012 | 751,086,581 | 17,956,061 | 0.02% |

**Actuarial Methods and Assumptions:**

The actuarial assumptions used in the June 30, 2016 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: 3.00% per year, compounded annually, based on anticipated investment returns on short-term investments as of June 30, 2016.

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 |
| < 1 | 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, 2015 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 | | | Sample Superannuation Retirement Rates | | |
|---|---|---|---|---|---|
| Age | Male | Female | Age | Male | Female |
| 55 | 15% | 15% | 55 | 30% | 30% |
| 60 | 12% | 15% | 60 | 28% | 30% |
| | | | 65 | 20% | 25% |
| | | | 74 | 100% | 100% |

Disability: Disability rates are the rates utilized in the June 30, 2015 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:

| | Percentage Disability Incidence | |
|---|---|---|
| Attained 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, 2016 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: None

**Philadelphia Gas Works (PGW) OPEB**

**Plan Description:**

**PGW** sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 2,190 participating retirees and their beneficiaries and dependents in FY 2016, in accordance with their retiree medical program. The annual covered payroll (which was substantially equal to total payroll) was $113.0 million at August 31, 2016.

**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 $28.5 million in FY 2016. In addition, **PGW** expensed $18.5 million of funding for the OPEB Trust. Retirees contributed $0.3 million towards their healthcare in FY 2016. 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 $2.4 million in FY 2016 which included $2.0 million for retirees. Retirees contributed $0.2 million towards their life insurance in FY 2016.

**Annual Postemployment Benefit Cost, Contributions Required, and Contributions Made***:*

The amount paid by **PGW** for retiree benefits in FY 2016 was $49.6 million, consisting of $29.3 million of healthcare expenses, $1.8 million of life insurance expenses, and $18.5 million contributed to the OPEB trust. The difference between the AOC and **PGW's** contributions resulted in a decrease in the OPEB obligation of $8.6 million in FY 2016, which was recorded to other non-current liabilities and expensed.

The actuarial accrued liability for benefits at August 31, 2016 was $489.7 million. The ratio of the unfunded actuarial accrued liability to the covered payroll was 316.8% as of August 31, 2016.

The assumptions used to determine the AOC for the fiscal year 2016 and the funded status of the plan include:

| | |
|---|---|
| Actuarial cost method | Projected unit credit |
| Method(s) used to determine the actuarial value of assets | Market value of plan assets held in the OPEB trust |
| Investment return assumption (discount rate) | 7.95%, which represents the long-term expected investment return on OPEB trust assets |
| Mortality | RP-2014 Mortality Tables with projection scale MP 2015 |
| Amortization method | Level dollar amount |
| Amortization period | Open period of 30 years |

Healthcare cost trend rates are as follows:

| | | Healthcare costs trend rates | | |
|---|---|---|---|---|
| Year | Medical (pre-65) | Medical (post-65) | Prescription | Dental |
| 2016 | 7.0% | 5.0% | 9.5% | 4.0% |
| 2017 | 6.5% | 4.5% | 8.5% | 4.0% |
| 2018 | 6.0% | 4.5% | 7.5% | 4.0% |
| 2019 | 5.5% | 4.5% | 6.5% | 4.0% |
| 2020 | 5.0% | 4.5% | 5.5% | 4.0% |
| 2021+ | 4.5% | 4.5% | 4.5% | 4.0% |

The following table shows the calculation of **PGW's** OPEB liability for FY 2016. The difference between annual OPEB cost (AOC) and contributions made results as an increase or decrease to the net OPEB obligation which is recorded in other non-current liabilities and expensed.

*(Amounts in Thousands of USD)*

| | |
|---|---|
| Annual required contribution | 41,782 |
| Interest on net OPEB obligation | 7,156 |
| Adj to annual required contribution | (7,958) |
| Annual OPEB cost | 40,980 |
| | |
| Payments made | (49,551) |
| Increase/(Decrease) in net OPEB obligation | (8,571) |
| | |
| Net OPEB obligation - beginning of year | 90,014 |
| Net OPEB obligation - end of year | 81,443 |

**PGW**'s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 2016 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 |
|---|---|---|---|
| 8/31/2016 | $ 40,980 | 120.9% | $ 81,443 |
| 8/31/2015 | $ 37,073 | 131.8% | $ 90,014 |
| 8/31/2014 | $ 37,090 | 119.6% | $ 101,788 |

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 2016 this transfer amounted to $383.6 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 $74.2 million to SEPTA.

### B. OTHER ORGANIZATIONS

The City provides varying levels of subsidy and other support payments which totaled $97.62 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 is self-insured for medical benefits provided to employees in the Fraternal Order of Police, its city-administered health plan, the International Association of Fire Fighters and District Council 47.

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 $350.3 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, 2014 resulted from the following:

*(Amounts in Millions of USD)*

| | Beginning Liability | Current Year Claims and Changes In Estimates | Claim Payments | Ending Liability |
|---|---|---|---|---|
| Fiscal 2014 | 356.1 | 244.0 | (250.8) | 349.3 |
| Fiscal 2015 | 349.3 | 296.0 | (291.7) | 353.6 |
| Fiscal 2016 | 353.6 | 216.2 | (219.5) | 350.3 |

The City's Unemployment Compensation and Workers' Compensation coverage are provided through its General Fund. Unemployment Compensation and Workers' Compensation coverage are funded by a pro rata charge to the various funds. Payments for the year were $2.8 million for Unemployment Compensation claims and $65.3 million for Workers' Compensation claims.

The City's estimated outstanding workers' compensation liabilities are $271.5 million discounted at 3.5%. On an undiscounted basis, these liabilities total $353.1 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 $245.8 million (discounted) and $321.5 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 School District 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 School District is self-insured for casualty losses, public liability, Workers' Compensation, Unemployment Compensation, Weekly Indemnity (salary continuation during employee illness), and employee medical benefits.

The School District maintains 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 $0.5 million except for losses incurred from windstorm, fire, flood and earthquake which has a $1.0 million and a limit of $250.0 million per occurrence with certain sub-limits as specified in the policy terms. Also, certain insurance coverage including Accident, Foreign Package Excess Workers' Compensation, Student Professional Liability and Employee Performance bonds are obtained.

The School District reported the long-term portion of its risk management obligations totaling $132.5 million in the district-wide Statement of Net Position. Self-Insured Medical Benefits and Workers' Compensation coverage is funded by a prorated charge to the various funds while both the School District and covered employees share the cost of Weekly Indemnity and Unemployment Compensation coverage.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and when the amount of the loss can be reasonably estimated. 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.

Settled claims covered by commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) years. There has not been a significant reduction in insurance coverage from coverage in the prior year for any risk category. The School District has not entered into any annuity contracts as part of claims settlements.

At June 30, 2016, the amount of these liabilities totaled $146.8 million for the City's component units.
Changes in the balances of claims and liabilities during the past three (3) years are as follows:

*(Amounts in Millions of USD)*

| | Beginning Liability | Current Year Claims and Changes In Estimates | Claim Payments | Ending Liability |
|---|---|---|---|---|
| Fiscal 2014 | 195.9 | 210.9 | (231.6) | 175.2 |
| Fiscal 2015 | 175.2 | 209.1 | (229.7) | 154.6 |
| Fiscal 2016 | 154.6 | 225.6 | (233.4) | 146.8 |

## 7. COMMITMENTS

### A. PRIMARY GOVERNMENT

Encumbrance accounting is utilized to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of open encumbrances for both the current and prior fiscal years were as follows:

| Fund | Amounts |
|---|---|
| General fund | 149,242,021 |
| Grants Revenue fund | 215,949,343 |
| Community Behavioral Health fund | 150,717,417 |
| Water Enterprise funds | 444,033,141 |
| Aviation Enterprise funds | 185,244,099 |
| Non-Major governmental funds | 223,537,427 |
| Total | 1,368,723,449 |

### B. COMPONENT UNITS

The School District's outstanding contractual commitments at June 30, 2016 are summarized as follows:

| | |
|---|---|
| New Construction and Land | 372,881 |
| Environmental Management | 369,720 |
| Alterations and Improvements | 4,857,525 |
| Major Renovations | 1,766 |
| Total | 5,601,892 |

Outstanding contractual commitments in the School District's operating funds at June 30, 2016 are as follows:

Services and Supplies

| | |
|---|---|
| General Fund | 66,274,486 |
| Intermediate Unit Fund | 2,549,757 |
| Total | 68,824,243 |

Categorical Funds encumbrances totaled $12.5 million at June 30, 2016.

## 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 $331.4 million. Of this amount $35.6 million is charged to the current operations of the Enterprise Funds. The remaining $295.8 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 $63.5 million to the General Fund and $9.7 million to the Enterprise Funds.

Significant cases included in the current litigation against the City are as follows:

**Eugene Gilyard v. City of Philadelphia**

- Plaintiffs Eugene Gilyard and Lance Felder were convicted of the murder of Thomas Keal in 1997. They spent approximately 16 years in prison. Plaintiffs were granted post-conviction relief in the form of a new trial after a man came forward and claimed to have murdered Keal. The District Attorney declined to retry plaintiffs for the murder and they were released from prison. Plaintiffs have now brought this claim for Malicious Prosecution. Plaintiffs claim that a witness for the prosecution was coerced into identifying one of the plaintiffs as a man he saw in the area of the murder with a gun. Specifically, they claim that detectives told him which picture to select from a photo array. Plaintiffs also claim that the affidavit of probable cause seeking an arrest warrant was intentionally falsified. The affidavit included the selection of plaintiffs from a photo array by a witness. Plaintiffs claim that selection never occurred. Finally, plaintiffs claim generally that the detectives failed to investigate alternative suspects. Specifically, they claim that a witness identified two men named “Rolex” and “Tizz” that were in the area of the murder asking questions about Keal prior to his death. Discovery closes on May 19, 2017. The likelihood of a verdict against the City is difficult to predict at this time. However, in the event of such a verdict, damages could reach $8 million given the time Plaintiffs spent in prison.

**Anthony Wright v. City of Philadelphia**

- The Wright case is a civil rights action arising from Mr. Wright’s retrial for the rape and murder of a 77-year-old woman. In 1993, Mr. Wright was convicted of the rape and murder of Louis Talley and sentenced to life without parole. After serving nearly 25 years in prison, Mr. Wright was acquitted of the rape and murder by a jury at his retrial in August of 2016. At the second trial, DNA evidence obtained from the victim was introduced into evidence that did not include Mr. Wright as the source. Also, other DNA evidence obtained from clothing allegedly belonging to Mr. Wright cast doubt on whether he wore the clothing during the murder. The DNA inside the clothing (pants and shoes) matched the victim’s DNA. Mr. Wright filed this Section 1983 civil rights action alleging that his civil rights were violated by the City of Philadelphia and several homicide detectives. He claims his conviction in 1993 was based on a coerced confession, clothing that was planted by detectives in his home, and false inculpatory statements from witnesses. He claims his conviction, therefore, violated his 4th Amendment right to be free from malicious prosecution. Mr. Wright further claims the violation of his right was directly caused by the City’s failure to train, supervise and discipline its homicide detectives. The City and the individual defendants contest Mr. Wright’s claims. The case is in early stage of discovery. It is difficult at this point to evaluate the likelihood of success, however, the exposure should Mr. Wright prevail would be in excess of $8 million.

**Henderson Inverse Condemnation**

- In early September 2016, a Petition for the Appointment of a Board of View pursuant to the Pennsylvania Eminent Domain Code, 26 Pa. C. Section 502(c), was filed in Delaware County against the City by numerous Henderson related entities and trusts (the “Sellers”). The Petition alleges that the City effected a de facto taking of the Henderson properties (the “Property”), which Property is proximate to Philadelphia International Airport and located in Tinicum Township, Delaware County. The City desires to acquire the Property for Airport purposes and had numerous discussions with representatives for the Sellers. In July 2016, the City made an offer for $70 million. The City received no response. The City will likely file its own de jure taking in the first quarter of 2017.

For the Henderson Property, the City will need the cooperation of Tinicum Township or Delaware County to take it by eminent domain. While Tinicum has agreed to not withhold its consent for the City to take certain properties, the City has not yet requested that consent. While there are various estimates, the number of acres involved, the parcel is approximately, 135+/- acres (Henderson claims in excess of 144 acres). The property was included in the City's FAA-approved Master Plan for the expansion of the Airport. It is one of several privately held properties identified in the Master Plan. The City has been successful in purchasing several of these.

The City is represented by outside counsel and the City has filed Preliminary Objections to the Petition. Henderson has responded and there will likely be a hearing on the Preliminary Objections. The parties are also embroiled in a variety of issues which will undoubtedly generate significant attorney's fees, (most significantly, massive discovery requests, which if not narrowed will require the City to produce hundreds of thousands of pages) two issues are at the core of what is in dispute: 1) when is the effective date of the taking (delay damages accrue from this date at a very high rate of interest); and 2) what is the value of the Property. The Hendersons have valued the Property at $180 M and the City's most recent appraisal (2013) values the Property at between $40 M and $50 M. An additional appraisal is being undertaken by the City.

An ordinance was introduced in to City Council on February 9, 2017 seeking authorization to acquire the Property by amicable negotiations or condemnation.

**Sweetened Beverage Tax Challenge**

- On September 2016, the American Beverage Association and other co-plaintiffs filed a lawsuit challenging the Philadelphia Beverage Tax in the Philadelphia Court of Common Pleas. The City estimates that the tax, once fully implemented, will generate approximately $92 million a year in tax over the next five years. On December 19, 2016, the Philadelphia Court of Common Pleas dismissed the lawsuit in its entirety. Plaintiffs appealed the decision to the Commonwealth Court. The City immediately petitioned the Pennsylvania Supreme Court to exercise King's Bench jurisdiction over the appeal, which was denied on February 13, 2017. (The Supreme Court had previously denied plaintiffs' request for King's Bench jurisdiction.) The City has a high degree of confidence that the tax is lawful and that it will ultimately prevail in litigation, but, if the Common Pleas Court decision were reversed on appeal, all or some of the tax revenue estimate would be at risk.

Briefing is currently ongoing and oral argument is tentatively set for April 3, 2017. The tax went into effect as scheduled on January 1, 2017 and will be collected as intended.

**Ciber Inc. – Contract Dispute Resolution**

- The City has a $15.7 million contract with Ciber Inc. ("Ciber,") to implement and host Oracle EBS software, which will take over HR, pensions, payroll, timekeeping, and benefits functionality currently performed by legacy systems, all part of the OnePhilly project. Ciber has furnished a performance bond in the amount of $12,257,400 in order to guarantee the work.

The City and Ciber have agreed upon a revised project schedule which extends the go-live date from June 2016 to September 2017. Under the terms of the contract, substantive revisions to the project schedule are made by change order signed by both parties. Ciber is demanding that the change order adopting the revised schedule add an additional $8.9 million to the project price; the City disputes that any new or out of scope work is being added, and has asked Ciber to justify its demand for additional money.

Ciber claims that the City agreed in the contract to the use of Ciber methodologies and that the City demanded changes to the sequence or durations of tasks in the project schedule are not part of Ciber methodology. Thus, Ciber contends that the City must pay for such changes. The City disputes that Ciber methodologies require certain durations or sequences.

Ciber also claims that the City has added additional work to the project scope by requiring Ciber to include in the project schedule additional tasks and sub-tasks that were not included in the previous version of the project schedule. The City disputes that its demand for additional detail in the project schedule obligates Ciber to perform out of scope work, and claims that all new tasks and sub-tasks in the project schedule are items of work that Ciber is already obligated to perform in the statement of work.

The contract is at the dispute resolution stage and negotiations are on-going. No one has filed a lawsuit or threatened, verbally or in writing, to sue the other. However, litigation is a possibility and, with the amount in dispute being as much as $8.9 million, the Law Department believes this matter reaches the disclosure threshold. If the matter goes to litigation, the City believes that it has a strong and credible position and intends to defend vigorously.

**Fraternal Order of Police – Labor Contract Grievance Re: Conditions of Police Facilities**

- The FOP filed a grievance alleging that the City violated their union labor contract's human dignity clause based on the condition of all police facilities and sought extensive remedies. Following a lengthy arbitration, an

interim award was issued on April 26, 2013. Pursuant to the terms of that award, the arbitrator found that the City had violated the contract but ordered only that the parties meet on a monthly basis to identify and prioritize issues, work out budgets, and work through the issues identified by the union. The parties have been doing so continuously since the award was issued.
Recently, in July of 2016, the FOP began seeking new hearings before the arbitrator regarding the conditions of the police facilities. The union has not specified its concerns, for this reason, the City's attorneys are unable in their professional judgment to evaluate the likely cost of an unfavorable outcome, but estimate that if renovations such as those previously sought were necessary, it could cost the City more than $8 million. City attorneys believe the probability of such an award being issued to be highly unlikely and would contest any such award vigorously through available appellate options.

**Estate of Rodriguez v. City of Philadelphia, No. 14-4435.**

- This lawsuit arose after a pregnant woman carrying a 36-week old baby fell down her stairs due to a pulmonary embolism and was taken by two Fire Department paramedics to Temple Hospital. The woman, Joanne Rodriguez, coded upon arriving at the hospital, at which point the door locks of the ambulance malfunctioned and trapped her and the paramedics inside the ambulance for a few minutes. Ms. Rodriguez died, while her son survived after a C-section but sustained severe, lifelong injuries. Ms. Rodriguez's estate has sued the City, its two paramedics, and every company involved in manufacturing the ambulance and its doors. Plaintiff has brought a state-created danger claim against our clients, as well as a variety of state law claims.

The case is currently in discovery. The City intends to file a motion for summary judgment as to all the claims. The City's attorneys believe the likelihood of an unfavorable outcome to be remote, believing instead that prevailing on summary judgment is likely. However, potential damages in this case could exceed $8 million.

**Sourovelis v. City of Philadelphia, No. 14-4687**

- This class action lawsuit alleges that the drug forfeiture program run by the City and the District Attorney's Office ("DAO") violates due process because the City and DAO accrue too much money from the program, thereby creating an inherent conflict of interest. The Plaintiffs have filed a motion for class certification.

The case is currently in discovery, and oral argument on the class certification motion has occurred. The Parties are waiting for a ruling on class certification from the Court. Additionally, motions for summary judgment are due on March 17, 2017, following the close of expert discovery. The City intends to oppose class certification and file a motion for summary judgment. If the Court grants class certification and then finds for plaintiffs on the merits, it is possible that the City would have to return approximately $12 million to class members and pay millions in attorneys' fees.

**Doe v. City of Philadelphia, No. 151201740**

- This class action lawsuit alleges that the City has violated a state law which sets a statutory penalty of $1,000 for each incident where a local government discloses the identity of someone who applies for a gun permit. The Plaintiffs allege that the City has violated this statute by sending out postcards addressed to gun permit applicants, having applicants write their names on sign-in sheets at the Police Department's Gun Permit Unit ("GPU") and calling out the names of applicants in the waiting room of the GPU.

The parties are currently in class discovery, which will be followed by briefing and argument on a class certification motion. The Pennsylvania Supreme Court recently granted a partial review of a similar case filed against Franklin County. However, the portion of that case being reviewed is not anticipated to affect the City's liability. Therefore, the Law Department intends to argue at the class certification stage that this case presents too many individualized issues to proceed as a class action. The damages in this matter could exceed $8 million, as plaintiffs allege that their putative class has 31,000 members. The City's attorneys believe the likelihood of an unfavorable outcome to be remote because a class will not be able to be certified due to the various individualized issues of the plaintiffs.

**Augustin v. City of Philadelphia, et al, No. 14-4238 (E.D. Pa)**

- Plaintiffs, purporting to represent a class of non-owner-occupied residential and commercial property owners, filed an action in the United States District Court for the Eastern District of Pennsylvania alleging that the City (which for this purpose includes the Philadelphia Gas Works ("PGW")), imposes liens on the class' properties for unpaid charges for gas service, incurred by their tenants or others living in or utilizing the properties, without meaningful and timely notice to them or opportunity to be heard beforehand, in alleged violation of their federal due process rights. Plaintiffs seek declaratory and permanent injunctive relief, an order requiring the City to release all existing liens in this category, and "such other relief deemed by the Court to be necessary or appropriate." Following extensive merits discovery, the parties filed cross-motions for summary judgment on the constitutionality of PGW's liening procedure as applied to such properties.

On February 11, 2016, the Court denied the City's summary judgment motion, identifying certain purported issues of material fact. On March 18, 2016, the Court granted the plaintiffs' motion. On May 5, 2016, following a hearing on May 3, 2016, the Court entered a preliminary injunction against the City and PGW restraining them, pending further order of the Court, from filing any new liens against such properties and from collecting upon existing liens. The Court permitted the City and PGW to continue to issue payoff statements to facilitate real estate transactions (PGW's typical method of satisfying its liens) on such properties, and to accept the payoffs, but directed it to segregate such money.

On July 26, 2016, the Court held a hearing on class certification and a non-jury trial on remaining factual issues.

On January 5, 2017, the District Court entered into its final order in the case, after certifying the case as a class action. The order essentially makes final the relief granted with the preliminary injunction. It prevents PGW from imposing "Covered Liens" (essentially liens relating to residential or commercial rental properties where gas service was provided to the delinquent tenant) until further order of the Court approving a revised notice and hearing procedure; bars the collection of such liens; and declares them void. The City and PGW have appealed to the Unites States Court of Appeals for the Third Circuit, and have been negotiating a partial stay of the final order pending disposition of the appeal. The amount at issue substantially exceeds $8 million, although PGW will be responsible assuming solvency.

**<u>Narcotics Field Unit – District Attorney's Letter Re: Not Prosecuting Cases</u>**

- The highly publicized letter from the District Attorney's Office calls into question approximately 350-500 arrests by a group of six narcotics officers. So far, approximately 250 cases have been filed in Federal Court in the Eastern District of Pennsylvania. The complaints allege that narcotics officers(s) falsified information obtained through confidential informants and planted evidence. Six narcotics officers have been arrested and are facing federal charges in relation to these complaints. If the allegations are substantiated, City Lawyers anticipate between 350 and 500 lawsuits to be filed. The number of lawsuits could easily surpass the number of cases brought as a result of the 39th District scandal. The 39th District scandal cost the City approximately $5 million.

Currently, of the 250 cases which are now stayed in Federal Court, the parties have selected 10 cases to litigate (the "Bellwether cases"). Those 10 are in the middle of discovery. The City will aggressively defend the Bellwether cases.

If Federal Court juries award significant damages in any of the 10 bellwether cases, the City faces potential exposure to damages as high as $8 million dollars, although that high of a figure is unlikely. The City assesses these cases are defensible.

**<u>Lower Darby Creek Area Superfund Site</u>**

- 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 (Clearview) 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 final plan and Record of Decision (ROD) were issued September 30, 2014. EPA chose its preferred option of a capping remedy that is estimated to cost approximately $24 million, and has preliminarily identified approximately $11 million dollars in past costs. On January 16, 2015, EPA sent a letter to the City and 22 other PRPs indicating EPA will not use its Special Notice authority to force the PRPs to begin a cleanup. Instead, EPA has decided that EPA will implement the cleanup/remedial action plan. EPA is also beginning a groundwater study that is likely to result in a recommendation for additional cleanup related to groundwater.

In November 2015 EPA released 30% Design Report for Clearview. A 60% Design Report is expected in fall 2016, and a final Design Report in March 2017. At that point, EPA most likely will decide whether it will precede to implement the Remedial Action itself or force the PRPs to take on the task. 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 $40 million to $60 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 ($8 million - $12 million).

**Reach Communications Specialists, Inc. (Reach) v. Jewell Williams, Sheriff et al.**

**E.D. Pa., No. 13-2388**

- Reach for itself and t/a RCS Searchers, Inc. ("Reach/RCS") 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. Reach pleaded federal law and state law claims for damages against City Defendants.

In the Complaint, Reach alleged that Acting Sheriff Deeley, in January 2011, immediately after her appointment as Acting Sheriff and following the retirement of former Sheriff Green effective end of December 2010, "unlawfully" terminated certain alleged contracts ("Alleged Contracts") made between former Sheriff Green and Reach/RCS. The Alleged Contracts concerned advertising and printing services, settlement services, title insurance distribution policies, 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 stave off foreclosure sales; and maintain the power and office of the Sheriff from dissolution.

Reach alluded to certain official actions taken, statements made, familial connections and employment relationships by former Sheriff Deeley (and her daughter Lisa Deeley) and Controller Butkovitz or by and between then-Chief Deputy Sheriff Vignola and Lexington officials, in connection with: the Controller's audit of Sheriff Office operations (and Auditor's Report critical of Sheriff's Office); the engagement of Lexington Technology Auditing, Inc. ("Lexington") to assist in that audit and the information Lexington purportedly obtained about Reach; and then-President Judge Dembe's involvement in the termination of Reach and FJD'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, attorney's 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 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 compensatory damages, prejudgment interest and costs 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.

During the Rule 16 conference on the case, based on the Court's determination that continued litigation might interfere with an ongoing criminal investigation, the Court issued an order placing the case in suspense (deferred status). The case remains in deferred status.

If and when the Court removes the case from suspense status and the litigation resumes, the City (and City Defendants in their official capacities) intend vigorously to pursue defenses and potentially counterclaims to defeat/minimize 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.

**(2) Guaranteed Debt**

During Fiscal Year 2014, the City implemented GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 had no significant effect on the City's financial statements. The City has guaranteed certain debt payments of one component unit (PPA). Under a contract with PPA authorized by City Council Ordinance, the City agreed to annually pay such amounts as necessary to restore any deficiency in the debt service reserve fund for PPA's Parking System Revenue Bonds Series 1999A. Through fiscal year 2016, the City has provided approximately $12.6 million in its role as guarantor of these bonds. The 1999A Indenture provides for the PPA to repay the City for any funds paid by the City as a result of its guarantee. In the event of a sale of the related parking lot, any funds received in excess of the bond principal and accrued interest will be used to repay the City. The 1999A bonds, which mature in fiscal year 2029, had an outstanding principal balance of $12.36 million at March 31 2016.

**(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 year ended June 30, 2016, which accounted for $323.2 million for all open programs as of February 17, 2017. Of this amount, $322.2 million represents unresolved cost due to the inability to obtain audit reports from sub-recipients for the year ended June 30, 2016 and prior. For Fiscal Years ending June 30, 2015 and prior, $0.9 million represents questioned costs related to specific compliance requirements which have yet to be resolved.

**(4) HUD Section 108 Loans**

As detailed in Note III. 6., collateral for repayment of the City's HUD Section 108 loans includes future Community Development Block Grant entitlements due to the City from HUD.

**(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, 2015 the Grants Revenue Fund had a $226.5 million receivable for the Children and Youth Program. In FY 2016 the Grants Revenue Fund had expenditures totaling $480.68 million and revenue totaling $460.08 million. At June 30, 2016 the Grants Revenue Fund had a $247.11 million receivable for the Children and Youth Program. Due to the nature of the program's billing polices, 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 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 four hundred thirty-six (436) various claims against the School District, by or on behalf of students, which aggregate to a total potential liability of $3.4 million.

Of those, four hundred twenty-six (426) 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 ninety-five (195) unfavorable outcomes are deemed probable and two hundred and six (206) are considered reasonably possible, in the aggregate of $0.9 million and $0.8 million respectively.

There are four (4) 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 are deemed probable for these lawsuits in the aggregate amounts of approximately $0.5 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 in the aggregate amounts of approximately $0.7 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 $28.7 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 $0.6 million and $10.8 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 $4.4 million and $2.6 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 enrollment. 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 enrollment 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 enrollment figures, an audit of reported enrollment 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 enrollment 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. Discussions with Commonwealth representatives regarding relief from this potential liability are ongoing. Because no final determination of forgiveness has been made, however, there remains a remote likelihood in the amount of $40 million.

***Federal Audits*** - 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, 2016 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.

The U.S. Department of Education ("DOE") 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 two additional PDLs (four PDLs total) on the remaining findings that required corrective actions, but did not result in monetary exposure. All of the corrective actions have already been implemented part of the corrective action plan as agreed upon with the PDE and DOE.

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. PDE raised two primary arguments against the recovery of the remaining liability: (1) the statute of limitations bars an additional $5.3 million in costs; and (2) equitable offset extinguishes the remaining liability. The administrative law judge (ALJ) issued a decision on February 28, 2014 rejecting these arguments and sustaining the full amount of disputed liabilities. On March 31, 2014, PFE and the District appealed the initial decision to the Secretary. On March 31, 2014, PDE and the School District appealed the initial decision to the Secretary. On December 29, 2014, the Secretary affirmed the liability, although he did not adopt the standard used by the ALJ. The Secretary's final decision was appealed to the U.S. Court of Appeals for Third Circuit on February 17, 2015. A panel of the Third Circuit issued its decision and sustaining the $7.2 million liability. PDE and the District filed a petition for certiorari with the Supreme Court of the United States on July 18, 2016, which was denied on October 3, 2016. With no further appeals pending, DOE may demand payment from PDE, which in turn may seek to recover the liability from the District. To date, no such demands have been made. The likelihood of liability is probable.

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. After PDE and the School District presented documentation demonstrating the application of the statute of limitations to DOE on April 4, 2016, DOE's attorney advised that DOE will not seek recovery of this amount and that a second PDL will be issued to that effect.

***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 Form 363, used to calculate charter school tuition, contains an allowance for improper deductions in the calculation of the regular education expenditure. The issue is 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 in more than 200 subsidy withholding requests submitted to PDE seeking subsidy from many school districts in Pennsylvania.

Because there are more than 200 appeals pending, PDE selected four cases involving Pittsburgh School District and charter schools as example cases on the legal issues involved. PDE had assigned a Hearing Officer to hear these administrative appeals and to make a recommendation to the Secretary of Education. However, prior to the hearing, the dispute between Pittsburgh School District and the charter schools was settled.

It is expected that PDE will select a different representative case to decide the legal question involved. However, no hearing is currently scheduled. The School District of Philadelphia intends to file a Petition to Intervene in the chosen 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 stayed pending the outcome of the example case.

The School District intends to vigorously defend its position, 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 PDE's 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 legal claims, in the opinion of the School District's outside counsel, the likelihood of an unfavorable outcome is reasonably possible in the amount of approximately $5.7 million for the pending withholding requests of which we are aware, assuming that the charter schools successfully argue that they are entitled to a portion of the School District's federal funding. The exposure if the PDE-363 form is in-validated 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.

## 9 SUBSEQUENT EVENTS

In preparing the accompanying financial statements, the City has reviewed events that occurred subsequent to June 30, 2016 through and including February 24, 2017. The following events are described below:

### A. PRIMARY GOVERNMENT

1. In October 2016, the City issued $175 million of Tax and Revenue Anticipation Notes (TRAN), Series A of 2016-2017 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 cur-rent fiscal year and pay the costs of issuance of the Notes. The proceeds will be invested and repaid by June 30, 2017.
2. In October 2016, the City issued $192.7 million of Water and Wastewater Revenue Refunding Bonds, Se-ries 2016. The 2016 series bonds were issued with interest rates ranging from 3% to 5%. The 2016 Series Bonds were issued to provide funds to finance the advance refunding of portions of the City's outstanding (a) Water and Wastewater Revenue Refunding Bonds, Series 2007A, (b) Water and Wastewater Revenue Bonds, Series 2009A, and (c) Water and Wastewater Revenue Bonds Series 2010C, and the cost of issu-ance of the 2016 Series Bonds.
3. Through August 2016 draw-downs totaling $2.5 million represent new loans from the Pennsylvania State In-frastructure Financing Authority ("PENNVEST") for water main replacement.
4. In February 2017, the City issued $263 million of General Obligation Refunding Bonds - Series 2017. The 2017 series bonds were issued with interest rates ranging from 4% to 5%. The 2017 Series Bonds were issued to provide funds to refund: (a) the City's General Obligation Bonds, Series 2006 maturing August 1, 2028 and August 1, 2031; (b) a portion of the City's General Obligation Fixed Rate Refunding Bonds, Series 2007A maturing August 1, 2018 and August 1, 2019; (c) the City's General Obligation Refunding Bonds, Series 2008A maturing on December 15, 2019 through 2027, inclusive, and December 15, 2032; (d) a portion of the City's General Obligation Fixed Rate Refunding Bonds, Series 2009A maturing August 1, 2021 through 2031, inclusive; (e) the City's General Obligation Bonds, Series 2011 maturing on August 1, 2041, and to pay for the cost of issuing the General Obligation Refunding Bonds - Series 2017.

### B. COMPONENT UNITS

1. **SDP** Subsequent Events

   a. Commonwealth of Pennsylvania Legislative Actions

   Cigarette Tax Bill – Legislation enacted by the Commonwealth State Senate in July 2016 provided for the establishment of a $58 million annual floor on the School District of Philadelphia Cigarette Tax of $2 per pack and the elimination of the 2019 sunset provision for this tax. These changes are projected to provide an additional $125 million in revenues over the period Fiscal Year 2017 to Fiscal Year 2021.

   Fiscal Code Amendments – The enactment of Act 85 in July 2016 by the Pennsylvania General As-sembly effected new state intercept provisions to be used during a Commonwealth Budget impasse de-signed to mitigate exposure to the Commonwealth's budget process. The new intercept provisions ap-propriate General Fund monies to be used to make intercept payments if no education appropriations have been enacted. This was in response to the Fiscal Year 2016 State budget impasse which left Pennsylvania School District's and other entities receiving State funding without General Fund budget appropriations and impacted bond ratings and debt service borrowing rates for short-term borrowing. The passing of Act 85 had a positive impact on the School District of Philadelphia's bond ratings for Fitch and Moody's.
   Bi-Partisan Funding Formula – Act 35 established in July 2016 a Basic Education Funding formula for school districts in Pennsylvania based upon factors including wealth of the district, the district's current tax effort and the ability of the district to raise revenue. As a result of the application of Act 35 formula in the education appropriations for Fiscal Year 2017, the District receives 23% of new funding as com-pared to 18% of existing basic education subsidies.

Ride Share Bill – On October 2016 the Commonwealth State Senate passed legislation authorizing ride-sharing in Pennsylvania. The legislation provides a long-term solution for ride sharing companies such as Lyft and Uber to operate everywhere in Pennsylvania, including in Philadelphia, PA. Two-thirds of the revenue derived from ride sharing in the City of Philadelphia will go to the School District of Philadelphia. The 66.67% of the assessment of 1.4% of the gross receipts from all fares that originate in the City will expire December 31, 2019. If an assessment is imposed after the expiration date, it may not be less than the 66.67%. The fully-approved program is anticipated to generate annual revenues of approximately $2 million.

b. Rating Agency Actions Due

In October 2016 both Fitch and Moody's upgraded the School District of Philadelphia's credit rating to "stable". Both Fitch and Moody's released a Credit Opinion that revised the credit outlook for the District from "negative" to "stable". Fitch affirmed the current rating for the School District's Bonds at BB- underlying and A+ enhanced. The upgrade was based upon improved fiscal management and revenue support from the City and Commonwealth. Moody's affirmed the current rating for the School District's Bonds at Ba3 underlying and A2 enhanced. This upgrade was based upon the Districts improved financial position and long term fiscal plan. These changes represent the first positive movement in the School District's credit outlook since 2010.

c. General Obligation Bonds, General Obligation Refunding Bonds, and State Public School Building Authority Lease Revenue Refunding Bonds

General Obligation Bonds: On October 20, 2016, the School Reform Commission authorized the issuance of General Obligation Bonds (GOB) Series D of 2016 and Series E of 2016. In November 2016, GOB Series 2016D was issued in the aggregate amount of $92.3 million while GOB Series E was issued as Federally Taxable Qualified School Construction Bonds in the aggregate amount of $147.2 million. Both series of bonds will fund the Capital Improvement Program. Bond provisions of GOB Series 2016E require the District to make periodic mandatory sinking fund installments through the maturity date of September 1, 2042.

General Obligation Refunding Bonds: On October 20, 2016, the School Reform Commission authorized the issuance of General Obligation Refunding Bonds (GOB) Series F of 2016 in the aggregate amount of $582.2 million for the purpose of refinancing General Obligation Refunding Bonds Series 2016A, 2016B and 2016C to achieve debt service savings, eliminate the related covenant, and restructure its variable rate debt by refunding all of the 2015 refunding bonds issued June 1, 2016.

State Public Building Authority Lease Rental Revenue Refunding Bonds: On October 20, 2016, the School Reform Commission authorized the issuance of General Obligation Refunding Bonds (GOB) Series A of 2016 in the aggregate amount of $570.0 million for the purpose of refinancing a portion GOB Series 2006A in the aggregate amount of $174.3 million and refinancing a portion General Obligation Refunding Bonds Series 2006B in the aggregate amount of $462.2 million.

d. Tax Anticipation Revenue Notes (TRAN)

In July 2016 as part of the annual process to obtain short term financing (in anticipation of the receipt of taxes and revenues) through the issuance of tax and revenue anticipation notes (TRANS), the School Reform Commission, through a resolution, authorized the issuance and sale of TRAN Note Series of 2016-2017 which was issued as fixed and variable rate notes in the aggregate of $375 million which matures on June 30, 2017. The District maintains authority and ability, through the same School Reform Commission resolution, to issue additional notes and has access to $200 million additional capacity which totals $575 million if cash flow needs require it to do so.

On July 1, 2016, the District issued Series 2016-2017 TRAN under four separate subseries and sold them to two separate private banks. The District issued and sold (1) Series A-1 of 2016-2017 as a fixed rate mode for $125 million; Series A-2 of 2016-2017 as a variable rate mode for $125 million; Series B-1 of 2016-2017 as a fixed rate mode for $62.5 million; and Series B-2 of 2016-2017 as a variable rate mode for $62.5 million. All series were issued for the purpose of financing the current operating expenses to be received during Fiscal Year 2017.


SEAL OF THE CITY OF PHILADELPHIA
PHILADELPHIA MANETO

# City of Philadelphia
PENNSYLVANIA

# 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, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive |
|---|---|---|---|---|
| | Original | Final | Actual* | (Negative) |
| **Revenues** | | | | |
| Tax Revenue | 2,912,279 | 2,951,425 | 2,966,648 | 15,223 |
| Locally Generated Non-Tax Revenue | 275,807 | 292,639 | 290,990 | (1,649) |
| Revenue from Other Governments | 651,815 | 679,722 | 689,076 | 9,354 |
| Revenue from Other Funds | 65,240 | 62,410 | 42,253 | (20,157) |
| Total Revenues | 3,905,141 | 3,986,196 | 3,988,967 | 2,771 |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 1,534,426 | 1,578,034 | 1,562,628 | 15,406 |
| Pension Contributions | 611,701 | 622,113 | 622,113 | - |
| Other Employee Benefits | 560,481 | 547,481 | 559,152 | (11,671) |
| Sub-Total Employee Compensation | 2,706,608 | 2,747,628 | 2,743,893 | 3,735 |
| Purchase of Services | 832,668 | 858,824 | 822,159 | 36,665 |
| Materials and Supplies | 70,040 | 69,133 | 66,499 | 2,634 |
| Equipment | 27,042 | 31,044 | 25,587 | 5,457 |
| Contributions, Indemnities and Taxes | 187,631 | 193,126 | 192,729 | 397 |
| Debt Service | 141,398 | 141,398 | 132,089 | 9,309 |
| Payments to Other Funds | 32,715 | 32,839 | 32,839 | - |
| Total Expenditures and Encumbrances | 3,998,102 | 4,073,992 | 4,015,795 | 58,197 |
| Operating Surplus (Deficit) for the Year | (92,961) | (87,796) | (26,828) | 60,968 |
| Fund Balance Available for Appropriation, July 1, 2015 | 139,401 | 151,531 | 151,531 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 24,500 | 24,500 | 23,612 | (888) |
| Other Adjustments | (1,615) | (5,500) | - | 5,500 |
| Adjusted Fund Balance, July 1, 2015 | 162,286 | 170,531 | 175,143 | 4,612 |
| Fund Balance Available for Appropriation, June 30, 2016 | 69,325 | 82,735 | 148,315 | 65,580 |

* Refer to the notes to required supplementary information.

**City of Philadelphia** **Exhibit XV**
**Required Supplementary Information**
**Budgetary Comparison Schedule**
**HealthChoices Behavioral Health Fund**
**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive |
|---|---|---|---|---|
| | Original | Final | Actual* | (Negative) |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 1,500 | 1,500 | 2,502 | 1,002 |
| Revenue from Other Governments | 960,052 | 960,052 | 891,909 | (68,143) |
| Total Revenues | 961,552 | 961,552 | 894,411 | (67,141) |
| **Other Sources** | | | | |
| Increase in Unreimbursed Committments | - | - | 16,669 | 16,669 |
| Decrease in Financed Reserves | - | - | 100,000 | 100,000 |
| Total Revenues and Other Sources | 961,552 | 961,552 | 1,011,080 | 49,528 |
| **Expenditures and Encumbrances** | | | | |
| Purchase of Services | 960,002 | 959,992 | 889,795 | 70,197 |
| Equipment | 50 | 50 | - | 50 |
| Payments to Other Funds | 1,500 | 1,510 | 743 | 767 |
| Total Expenditures and Encumbrances | 961,552 | 961,552 | 890,538 | 71,014 |
| Operating Surplus (Deficit) for the Year | - | - | 120,542 | 120,542 |
| Fund Balance Available for Appropriation, July 1, 2015 | - | (3,354) | (3,354) | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 1,742 | 1,742 |
| Prior Period Adjustments | - | - | 11,297 | 11,297 |
| Other Adjustments | - | 3,354 | - | (3,354) |
| Adjusted Fund Balance, July 1, 2015 | - | - | 9,685 | 9,685 |
| Fund Balance Available for Appropriation, June 30, 2016 | - | - | 130,227 | 130,227 |

* 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, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual* | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 94,663 | 87,333 | 47,834 | (39,499) |
| Revenue from Other Governments | 1,463,971 | 1,221,033 | 835,133 | (385,900) |
| Total Revenues | 1,558,634 | 1,308,366 | 882,967 | (425,399) |
| **Other Sources** | | | | |
| Decrease in Unreimbursed Committments | - | - | (22,895) | (22,895) |
| Decrease in Financed Reserves | - | - | 23,898 | 23,898 |
| Total Revenues and Other Sources | 1,558,634 | 1,308,366 | 883,970 | (424,396) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 178,942 | 199,896 | 138,864 | 61,032 |
| Pension Contributions | 15,076 | 38,883 | 34,173 | 4,710 |
| Other Employee Benefits | 56,433 | 33,366 | 31,713 | 1,653 |
| Sub-Total Employee Compensation | 250,451 | 272,145 | 204,750 | 67,395 |
| Purchase of Services | 1,023,005 | 1,010,429 | 763,894 | 246,535 |
| Materials and Supplies | 35,621 | 30,880 | 21,392 | 9,488 |
| Equipment | - | 22,406 | 10,650 | 11,756 |
| Contributions, Indemnities and Taxes | 110 | 10 | - | 10 |
| Payments to Other Funds | 45,646 | 47,396 | 47,254 | 142 |
| Advances, Subsidies, Miscellaneous | 203,801 | 97,478 | - | 97,478 |
| Total Expenditures and Encumbrances | 1,558,634 | 1,480,744 | 1,047,940 | 432,804 |
| Operating Surplus (Deficit) for the Year | - | (172,378) | (163,970) | 8,408 |
| Fund Balance Available for Appropriation, July 1, 2015 | - | (212,994) | (212,994) | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 40,963 | 40,963 |
| Revenue Adjustments - Net | - | - | 14,114 | 14,114 |
| Prior Period Adjustments | - | 212,994 | - | (212,994) |
| Adjusted Fund Balance, July 1, 2015 | - | - | (157,917) | (157,917) |
| Fund Balance Available for Appropriation, June 30, 2016 | - | (172,378) | (321,887) | (149,509) |

* Refer to the notes to required supplementary information.

**City of Philadelphia - OPEB - Schedule of Funding Progress** *(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 |
|---|---|---|---|---|---|---|
| 07/01/2008 | - | 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% |
| 07/01/2013 | - | 1,703.6 | 1,703.6 | 0.00% | 1,416.9 | 120.23% |
| 07/01/2014 | - | 1,732.1 | 1,732.1 | 0.00% | 1,495.1 | 115.85% |
| 07/01/2015 | - | 1,772.6 | 1,772.6 | 0.00% | 1,544.5 | 114.80% |

**City of Philadelphia - Municipal Pension Plan - Schedule of Changes in Net Pension Liability** *(Amounts of USD)*

| | FYE 2016 | FYE 2015 | FYE 2014 |
|---|---|---|---|
| **Total Pension Liability** | | | |
| Service Cost (MOY) | 148,370,075 | 143,556,347 | 136,986,515 |
| Interest (includes interest on service cost) | 802,450,569 | 791,298,503 | 774,518,750 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | 151,918,733 | 34,909,464 | - |
| Changes of assumptions | 85,147,737 | 48,146,352 | 213,156,725 |
| Benefit payments, including refunds of member contributions | (889,343,124) | (881,464,964) | (808,597,357) |
| **Net change in total pension liability** | **298,543,990** | **136,445,702** | **316,064,633** |
| **Total Pension liability - beginning** | 10,578,665,968 | **10,442,220,266** | **10,126,155,633** |
| **Total Pension liability - ending** | **10,877,209,958** | **10,578,665,968** | **10,442,220,266** |
| **Plan fiduciary net position** | | | |
| Contributions - employer | 660,246,511 | 577,195,412 | 553,178,927 |
| Contributions - member | 67,055,003 | 58,657,817 | 53,722,275 |
| Net investment income | (145,681,480) | 13,838,367 | 681,469,584 |
| Benefit payments, including refunds of member contributions | (889,343,124) | (881,666,036) | (808,597,357) |
| Administrative expense | (8,553,837) | (10,478,541) | (8,291,820) |
| **Net change in plan fiduciary net position** | **(316,276,927)** | **(242,452,981)** | **471,481,609** |
| **Plan fiduciary net position - beginning** | 4,674,252,416 | **4,916,705,397** | **4,445,223,788** |
| **Plan fiduciary net position - ending** | **4,357,975,073** | **4,674,252,416** | **4,916,705,397** |
| **Net pension liability - ending** | **6,519,234,885** | **5,904,413,552** | **5,525,514,869** |
| **Plan fiduciary net position as a percentage of the total pension liability** | 40.07% | 44.19% | 47.08% |
| **Covered employee payroll** | 1,676,411,925 | 1,597,848,869 | 1,556,660,223 |
| **Net pension liability as a percentage of covered employee payroll** | 388.88% | 369.52% | 354.96% |

**City of Philadelphia Schedule of Collective Contributions (Based on Minimum Municipal Obligations)**
Last 10 Fiscal Years
*Amounts in Thousands*

| | FYE 2016 | FYE 2015 | FYE 2014 | FYE 2013 | FYE 2012 | FYE 2011 | FYE 2010 | FYE 2009 | FYE 2008 | FYE 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Actuarially determined Contribution | 594,975 | 556,030 | 523,368 | 727,604 | 534,039 | 463,375 | 297,446 | 438,522 | 412,449 | 400,256 |
| Contributions in Relation to the Actuarially Determined Contribution | 660,246 | 577,195 | 553,179 | 781,823 | 555,690 | 470,155 | 312,556 | 455,389 | 426,934 | 432,267 |
| Contribution Deficiency/(Excess) | (65,271) | (21,165) | (29,811) | (54,219) | (21,651) | (6,780) | (15,110) | (16,867) | (14,485) | (32,011) |
| Covered-Employee Payroll | 1,676,412 | 1,597,849 | 1,495,421 | 1,429,723 | 1,372,174 | 1,371,274 | 1,421,151 | 1,463,260 | 1,456,520 | 1,351,826 |
| Contributions as a Percentage of Covered-Employee Payroll | 39.38% | 36.12% | 36.99% | 54.68% | 40.50% | 34.29% | 21.99% | 31.12% | 29.31% | 31.98% |

**City of Philadelphia Schedule of Collective Contributions (Based on Funding Policy)**
Last 10 Fiscal Years
*Amounts in Thousands*

| | FYE 2016 | FYE 2015 | FYE 2014 | FYE 2013 | FYE 2012 | FYE 2011 | FYE 2010 | FYE 2009 | FYE 2008 | FYE 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Actuarially determined Contribution | 846,283 | 798,043 | 823,885 | 738,010 | 722,491 | 715,544 | 581,123 | 539,464 | 536,874 | 527,925 |
| Contributions in Relation to the Actuarially Determined Contribution | 660,247 | 577,195 | 553,179 | 781,823 | 555,690 | 470,155 | 312,556 | 455,389 | 426,934 | 432,267 |
| Contribution Deficiency/(Excess) | 186,036 | 220,847 | 270,706 | (43,813) | 166,801 | 245,389 | 268,567 | 84,075 | 109,940 | 95,658 |
| Covered-Employee Payroll | 1,676,412 | 1,597,849 | 1,495,421 | 1,429,723 | 1,372,174 | 1,371,274 | 1,421,151 | 1,463,260 | 1,456,520 | 1,351,826 |
| Contributions as a Percentage of Covered-Employee Payroll | 39.38% | 36.12% | 36.99% | 54.68% | 40.50% | 34.29% | 21.99% | 31.12% | 29.31% | 31.98% |



**Notes to Schedule**

Valuation Date: 7/1/2014
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year

Key Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method: Entry Age
Asset valuation method: Ten-year smoothed market
Amortization method: Gain/Losses are amortized over closed 20-year periods, assumption changes over 15years, benefit changes for actives over 10 years, benefit changes for inactive members over 1 year, and plan changes mandated by state over 20 years.
Under the City's Funding policy, the initial July 1, 1985 unfunded actuarial liability (UAL) is amortized over 34 years ending June 30, 2019, with payments increasing 3.3% per year, the assumed payroll growth.
Under the MMO Funding Policy, the July 1, 2009 unfunded actuarial liability (UAL) was "fresh started", to be amortized over 30 years, ending June 30, 2039. This is level dollar amortization of the UAL.
Discount rate: 7.80%
Amortization growth rate: 3.30%
Salary increases: Age based salary scale
Mortality: Sex distinct RP-2000 Combined Mortality with adjustments and improvements using Scale AA

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2016 can be found in the July 1, 2014 actuarial valuation report.

**Philadelphia Gas Works - Schedule of Changes in Net Pension Liability** *(Amounts in thousands USD)*

| | FYE 2016 | FYE 2015 | FYE 2014 |
|---|---|---|---|
| Total Pension Liability | | | |
| Service Cost | 5,400 | 4,890 | 8,924 |
| Interest Cost | 55,903 | 52,377 | 47,098 |
| Changes in Benefit Terms | 0 | - | - |
| Differences between expected and actual experience | -8,841 | 17,960 | 59,326 |
| Changes in assumptions | 26,748 | 44,877 | - |
| Benefit Payments | (50,447) | (46,917) | (42,913) |
| **Net Change in Total Pension Liability** | **28,763** | **73,187** | **72,435** |
| **Total Pension Liability (Beginning)** | **750,588** | **677,401** | **604,966** |
| **Total Pension Liability (Ending)** | **779,351** | **750,588** | **677,401** |
| Plan Fiduciary Net Position | | | |
| Contributions-Employer | 21,123 | 21,106 | 24,934 |
| Contributions-Employee | 602 | 393 | 239 |
| Net Investment Income | 2,872 | 24,472 | 75,303 |
| Benefit Payments | (50,446) | (46,917) | (42,913) |
| Administrative Expense | (1,611) | (1,480) | (732) |
| Other | - | - | - |
| **Net Change in Fiduciary Net Position** | **(27,460)** | **(2,426)** | **56,831** |
| **Plan Fiduciary Net Position (Beginning)** | **510,719** | **513,145** | **456,314** |
| **Plan Fiduciary Net Position (Ending)** | **483,259** | **510,719** | **513,145** |
| **Net Pension Liability (Ending)** | **296,092** | **239,869** | **164,256** |
| Total Pension Liability | 779,351 | 750,588 | 677,401 |
| Plan Fiduciary Net Position | 483,259 | 510,719 | 513,145 |
| **Net Pension Liability (Ending)** | **296,092** | **239,869** | **164,256** |
| Net Position as a percentage of Pension Liability | 62.01% | 68.04% | 75.75% |
| Covered Employee Payroll | 90,860 | 95,187 | 103,530 |
| Net Pension Liability as a percentage of Payroll | 325.88% | 252.00% | 158.66% |

*Valuation Date: actuarial liabilities and assets are calculated as of the Fiscal Year end date.*

**Philadelphia Gas Works - Schedule of Actuarially Determined Contribution** *(Amounts in thousands USD)*

| | FYE 2016 | FYE 2015 | FYE 2014 |
|---|---|---|---|
| Actuarially Determined Contribution | 26,476 | 21,526 | 24,385 |
| Contributions Made | 21,123 | 21,106 | 24,385 |
| Contribution Deficiency/(Excess) | 5,353 | 420 | - |
| Covered Emplyee Payroll | 90,860 | 95,187 | 103,530 |
| Contributions as a percent of covered employee payroll | 29.14% | 22.61% | 23.55% |

**Notes to Required Supplementary Information:**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Valuation Date | June 30, 2016 |
| Actuarial Cost Method | Projected Unit Credit Method |
| Amortization Method | Contributions based on greater of 20 year level dollar open amortization method and 30 ye level dollar closed amortization method. |
| Asset Valuation Method | Actual Fair Market Value |
| Salary Increases | 4.5% for current and subsequent years |
| General Inflation | 2.00% |
| Investment Rate of Return | 7.30% in 2016, &.65% in 2015, 7.95% in 2014 |
| Cost of Living | N/A |
| Mortality rates | RP-2014 static mortality generationally projected with Scale MP-2014 |

**For the Fiscal Year Ended June 30, 2016** *Amounts in thousands of USD*

## 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 | 3,988,967 | 894,411 | 882,967 |
| Transfers | (409,106) | - | - |
| Program Income | - | - | 63,407 |
| Adjustments applicable to Prior Years Activity | - | - | - |
| Change in Amount Held by Fiscal Agent | (2) | - | - |
| Change in BPT Adjustment | 9,048 | - | - |
| Return of Loan | - | - | - |
| Other | - | - | 14,114 |
| Statement of Revenues, Expenditures & Changes in Fund Balance | 3,588,907 | 894,411 | 960,488 |
| **Expenditures and Encumbrances** | | | |
| Budgetary Comparison Schedule | 4,015,795 | 890,538 | 1,047,940 |
| Transfers | (170,698) | - | (31,881) |
| Bond Issuance Costs | 992 | - | - |
| Expenditures applicable to Prior Years Budgets | 59,052 | 43,729 | 26,022 |
| Program Income | - | - | 63,407 |
| Payments for Current Bond Refundings | 6,693 | - | - |
| Payment to School Board from Bond Proceeds | - | - | - |
| Change in Amount Held by Fiscal Agent | 19,136 | - | - |
| Current Year Encumbrances | (72,946) | (60,331) | (43,481) |
| Statement of Revenues, Expenditures & Changes in Fund Balance | 3,858,024 | 873,936 | 1,062,007 |

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.

# <u>NON-MAJOR GOVERNMENTAL FUNDS (Cont'd)</u>

## <u>DEBT SERVICE FUNDS</u>

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.

## <u>CAPITAL IMPROVEMENT FUNDS</u>

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.

## <u>PERMANENT FUNDS</u>

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** **Schedule I**
**Combining Balance Sheet**
**Non-Major Governmental Funds**
**June 30, 2016**

*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 | - | - | - | - | - | - | - | - | - | - | 8,745 | 291 | 15,720 | 24,756 |
| Equity in Treasurer's Account | 1,927 | 38,017 | 8,315 | - | 5,801 | 21,850 | 12,263 | 30 | 3,415 | - | 4,155 | - | - | 95,773 |
| Investments | - | - | - | - | - | - | - | - | - | - | 848 | - | 9,933 | 10,781 |
| Due from Other Funds | - | - | - | - | - | - | - | - | - | - | 39 | - | - | 39 |
| Due from Component Units | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Amounts Held by Fiscal Agent | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Notes Receivable | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Taxes Receivable | - | - | 7,541 | - | 598 | - | 15 | - | - | - | - | - | 5,042 | 13,196 |
| Accounts Receivable | - | - | - | 2,404 | - | - | - | - | - | - | - | 4,048 | - | 6,452 |
| Due from Other Governmental Units | - | - | - | 8,481 | - | - | - | - | - | - | - | - | - | 8,481 |
| Allowance for Doubtful Accounts | - | - | (860) | - | (23) | - | (14) | - | - | - | - | - | - | (897) |
| Interest and Dividends Receivable | - | - | - | - | 6 | - | - | - | - | - | - | - | 2 | 8 |
| Inventories | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - | - | - | - | 355 | - | 21 | 376 |
| Total Assets | 1,927 | 38,017 | 14,996 | 10,885 | 6,382 | 21,850 | 12,264 | 30 | 3,415 | - | 14,142 | 4,339 | 30,718 | 158,965 |
| **Liabilities** | | | | | | | | | | | | | | |
| Notes Payable | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vouchers Payable | 26 | 1,080 | - | 1,051 | - | 817 | 909 | - | 117 | - | 266 | - | - | 4,266 |
| Accounts Payable | - | 1,723 | 2,508 | 1,999 | - | 266 | 100 | - | - | - | 593 | 4,187 | 96 | 11,472 |
| Salaries and Wages Payable | - | - | - | 128 | - | - | 58 | - | - | - | - | - | - | 186 |
| Payroll Taxes Payable | - | - | - | - | - | - | - | - | - | - | - | - | 42 | 42 |
| Accrued Expenses | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Due to Other Funds | - | - | - | 5,229 | - | - | - | - | - | - | 4 | - | 5,042 | 10,275 |
| Due to Primary Government | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Due to Component Units | - | - | - | 5,037 | - | - | - | - | - | - | - | - | - | 5,037 |
| Funds Held in Escrow | - | - | - | - | - | - | - | - | 447 | - | 867 | - | - | 1,314 |
| Due to Other Governmental Units | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Unearned Revenue | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| General Obligation Bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Revenue Bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Unamortized Loss - Refunded Debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Unamortized Discount on Revenue Bonc | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Obligations Under Capital Leases | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Liabilities | 26 | 2,803 | 2,508 | 13,444 | - | 1,083 | 1,067 | - | 564 | - | 1,730 | 4,187 | 5,180 | 32,592 |
| **Deferred Inflows of Resources** | - | - | 209 | 2,750 | 2 | - | 2 | - | - | - | - | - | - | 2,963 |
| **Fund Balances** | | | | | | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Restricted | 1,901 | 35,214 | 12,279 | - | 6,380 | 20,767 | 11,195 | - | - | - | 10,749 | 152 | 25,538 | 124,175 |
| Committed | - | - | - | - | - | - | - | 30 | 2,851 | - | 1,663 | - | | 4,544 |
| Assigned | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Unassigned | - | - | - | (5,309) | - | - | - | - | - | - | - | - | - | (5,309) |
| Total Fund Balances | 1,901 | 35,214 | 12,279 | (5,309) | 6,380 | 20,767 | 11,195 | 30 | 2,851 | - | 12,412 | 152 | 25,538 | 123,410 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | 1,927 | 38,017 | 14,996 | 10,885 | 6,382 | 21,850 | 12,264 | 30 | 3,415 | - | 14,142 | 4,339 | 30,718 | 158,965 |

**City of Philadelphia** **Schedule I**
**Combining Balance Sheet**
**Non-Major Governmental Funds(Continued)**
**June 30, 2016**

*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 | - | - | 13,457 | 13,457 | - | - | - | 348 | 38,561 |
| Equity in Treasurer's Account | 987 | - | - | 987 | 138,973 | - | 138,973 | - | 235,733 |
| Investments | - | 30 | 66,988 | 67,018 | - | 28,137 | 28,137 | 6,068 | 112,004 |
| Due from Other Funds | - | - | - | - | - | - | - | - | 39 |
| Due from Component Units | - | - | - | - | - | - | - | - | - |
| Amounts Held by Fiscal Agent | - | - | - | - | - | - | - | - | - |
| Notes Receivable | - | - | - | - | - | - | - | - | - |
| Taxes Receivable | - | - | - | - | - | - | - | - | 13,196 |
| Accounts Receivable | - | - | - | - | - | - | - | - | 6,452 |
| Due from Other Governmental Units | - | - | - | - | 75,175 | - | 75,175 | - | 83,656 |
| Allowance for Doubtful Accounts | - | - | - | - | - | - | - | - | (897) |
| Interest and Dividends Receivable | - | - | 7 | 7 | 1 | - | 1 | - | 16 |
| Inventories | - | - | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - | 1 | 377 |
| Total Assets | 987 | 30 | 80,452 | 81,469 | 214,149 | 28,137 | 242,286 | 6,417 | 489,137 |
| **Liabilities** | | | | | | | | | |
| Notes Payable | - | - | - | - | - | - | - | - | - |
| Vouchers Payable | - | - | - | - | 12,102 | - | 12,102 | - | 16,368 |
| Accounts Payable | - | - | - | - | 17,410 | 3,363 | 20,773 | 10 | 32,255 |
| Salaries and Wages Payable | - | - | - | - | 232 | - | 232 | - | 418 |
| Payroll Taxes Payable | - | - | - | - | - | - | - | - | 42 |
| Accrued Expenses | - | - | - | - | - | - | - | - | - |
| Due to Other Funds | - | - | - | - | - | - | - | 35 | 10,310 |
| Due to Primary Government | - | - | - | - | - | - | - | - | - |
| Due to Component Units | - | - | - | - | - | - | - | - | 5,037 |
| Funds Held in Escrow | - | - | - | - | 2,720 | - | 2,720 | - | 4,034 |
| Due to Other Governmental Units | - | - | - | - | - | - | - | - | - |
| Unearned Revenue | - | - | - | - | 8,847 | - | 8,847 | - | 8,847 |
| General Obligation Bonds | - | - | - | - | - | - | - | - | - |
| Revenue Bonds | - | - | - | - | - | - | - | - | - |
| Unamortized Loss - Refunded Debt | - | - | - | - | - | - | - | - | - |
| Unamortized Discount on Revenue B | - | - | - | - | - | - | - | - | - |
| Obligations Under Capital Leases | - | - | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - | - | - |
| Total Liabilities | - | - | - | - | 41,311 | 3,363 | 44,674 | 45 | 77,311 |
| **Deferred Inflows of Resources** | - | - | - | - | 64,521 | - | 64,521 | - | 67,484 |
| **Fund Balances** | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | 3,137 | 3,137 |
| Restricted | 987 | 30 | 80,452 | 81,469 | 108,317 | 24,774 | 133,091 | 3,235 | 341,970 |
| Committed | - | - | - | - | - | - | - | - | 4,544 |
| Assigned | - | - | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - | - | (5,309) |
| Total Fund Balances | 987 | 30 | 80,452 | 81,469 | 108,317 | 24,774 | 133,091 | 6,372 | 344,342 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | 987 | 30 | 80,452 | 81,469 | 214,149 | 28,137 | 242,286 | 6,417 | 489,137 |

## City of Philadelphia

**Schedule II**

### Combining Statement of Revenues, Expenditures and Changes in Fund Balances
### Non-Major Governmental Funds
### For the Fiscal Year Ended June 30, 2016

*ɿounts 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 | - | - | 58,500 | - | 5,691 | - | 147,054 | - | - | - | - | - | 446,680 | 657,925 |
| Locally Generated Non-Tax Revenue | - | 2 | - | 3,362 | 20 | 13,082 | - | - | 3,039 | 356 | 4,058 | 50 | 136 | 24,105 |
| Revenue from Other Governments | 4,593 | 33,423 | - | 44,407 | - | - | - | - | - | - | - | - | - | 82,423 |
| Other Revenues | - | - | - | - | - | - | - | - | - | - | 967 | - | 1,681 | 2,648 |
| Total Revenues | 4,593 | 33,425 | 58,500 | 47,769 | 5,711 | 13,082 | 147,054 | - | 3,039 | 356 | 5,025 | 50 | 448,497 | 767,101 |
| **Expenditures** | | | | | | | | | | | | | | |
| Current Operating: | | | | | | | | | | | | | | |
| Economic Development | - | - | 58,062 | - | - | - | - | - | - | - | - | - | - | 58,062 |
| Transportation: | | | | | | | | | | | | | | |
| Streets & Highways | 4,959 | 27,822 | - | - | - | - | - | - | - | - | - | - | - | 32,781 |
| Mass Transit | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Judiciary and Law Enforcement: | | | | | | | | | | | | | | |
| Prisons | - | - | - | - | - | - | - | - | 2,645 | - | - | - | - | 2,645 |
| Conservation of Health: | | | | | | | | | | | | | | |
| Health Services | - | - | - | - | - | - | 144,892 | - | - | - | - | - | - | 144,892 |
| Housing and Neighborhood Development | - | - | - | 45,971 | - | 10,855 | - | - | - | - | - | - | - | 56,826 |
| Cultural and Recreational: | | | | | | | | | | | | | | |
| Parks & Recreation | - | - | - | - | - | - | - | - | - | - | 1,386 | - | - | 1,386 |
| Libraries and Museums | - | - | - | - | - | - | - | - | - | - | 115 | - | - | 115 |
| Improvements to General Welfare: | | | | | | | | | | | | | | |
| Service to Property: | | | | | | | | | | | | | | |
| General Management and Support | - | - | - | - | 6,000 | - | - | - | 772 | 356 | 2,938 | 42,145 | 1,353 | 53,564 |
| Capital Outlay | - | - | - | - | - | - | - | - | - | . | - | - | 2 | 2 |
| Debt Service: | | | | | | | | | | | | | | |
| Principal | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bond Issuance Cost | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Capital Lease Principal | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Capital Lease Interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Expenditures | 4,959 | 27,822 | 58,062 | 45,971 | 6,000 | 10,855 | 144,892 | - | 3,417 | 356 | 4,439 | 42,145 | 1,355 | 350,273 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (366) | 5,603 | 438 | 1,798 | (289) | 2,227 | 2,162 | - | (378) | - | 586 | (42,095) | 447,142 | 416,828 |
| **Other Financing Sources (Uses)** | | | | | | | | | | | | | | |
| Issuance of Debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Issuance of Refunding Bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bond Issuance Premium | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bond Issuance Discountor or payment | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Proceeds from Lease & Service Agreements | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Payment to Refunded Bonds Escrow Agent | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfers In | - | - | - | - | - | - | - | - | - | - | 1,278 | 41,936 | - | 43,214 |
| Transfers Out | - | - | - | - | - | - | (2,000) | - | - | - | - | - | (449,946) | (451,946) |
| Total Other Financing Sources (Uses) | - | - | - | - | - | - | (2,000) | - | - | - | 1,278 | 41,936 | (449,946) | (408,732) |
| Net Change in Fund Balances | (366) | 5,603 | 438 | 1,798 | (289) | 2,227 | 162 | - | (378) | - | 1,864 | (159) | (2,804) | 8,096 |
| Fund Balance - July 1, 2015 | 2,267 | 29,611 | 11,841 | (7,107) | 6,669 | 18,540 | 11,033 | 30 | 3,229 | - | 10,559 | 311 | 28,342 | 115,325 |
| Adjustment | - | - | - | - | - | - | - | - | - | - | (11) | - | - | (11) |
| Fund Balance Adjusted - July 1, 2015 | 2,267 | 29,611 | 11,841 | (7,107) | 6,669 | 18,540 | 11,033 | 30 | 3,229 | - | 10,548 | 311 | 28,342 | 115,314 |
| Fund Balance - June 30, 2016 | 1,901 | 35,214 | 12,279 | (5,309) | 6,380 | 20,767 | 11,195 | 30 | 2,851 | - | 12,412 | 152 | 25,538 | 123,410 |

## 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, 2016**

*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 | - | - | - | - | - | - | - | - | 657,925 |
| Locally Generated Non-Tax Revenue | 1 | - | 2,294 | 2,295 | - | 49 | 49 | (98) | 26,351 |
| Revenue from Other Governments | - | - | - | - | 51,271 | - | 51,271 | - | 133,694 |
| Other Revenues | - | - | - | - | 406 | - | 406 | - | 3,054 |
| Total Revenues | 1 | - | 2,294 | 2,295 | 51,677 | 49 | 51,726 | (98) | 821,024 |
| **Expenditures** | | | | | | | | | |
| Current Operating: | | | | | | | | | |
| Economic Development | - | - | - | - | - | - | - | - | 58,062 |
| Transportation: | | | | | | | | | |
| Streets & Highways | - | - | - | - | - | - | - | - | 32,781 |
| Mass Transit | - | - | - | - | - | - | - | - | - |
| Judiciary and Law Enforcement: | | | | | | | | | |
| Prisons | - | - | - | - | - | - | - | - | 2,645 |
| Conservation of Health: | | | | | | | | | |
| Health Services | - | - | - | - | - | - | - | - | 144,892 |
| Housing and Neighborhood Development | - | - | - | - | - | - | - | - | 56,826 |
| Cultural and Recreational: | | | | | | | | | |
| Parks & Recreation | - | - | - | - | - | - | - | 102 | 1,488 |
| Libraries and Museums | - | - | - | - | - | - | - | 1 | 116 |
| Improvements to General Welfare: | | | | | | | | | |
| Service to Property: | | | | | | | | | |
| General Management and Support | - | - | - | - | - | 14 | 14 | - | 53,578 |
| Capital Outlay | - | - | - | - | 189,323 | 16,739 | 206,062 | - | 206,064 |
| Debt Service: | | | | | | | | | |
| Principal | 59,175 | 23,858 | 49,860 | 132,893 | - | - | - | - | 132,893 |
| Interest | 67,889 | 12,178 | 15,757 | 95,824 | - | - | - | - | 95,824 |
| Bond Issuance Cost | 1,080 | - | - | 1,080 | 1,273 | - | 1,273 | - | 2,353 |
| Capital Lease Principal | - | - | - | - | - | - | - | - | - |
| Capital Lease Interest | - | - | - | - | - | - | - | - | - |
| Total Expenditures | 128,144 | 36,036 | 65,617 | 229,797 | 190,596 | 16,753 | 207,349 | 103 | 787,522 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (128,143) | (36,036) | (63,323) | (227,502) | (138,919) | (16,704) | (155,623) | (201) | 33,502 |
| **Other Financing Sources (Uses)** | | | | | | | | | |
| Issuance of Debt | - | - | - | - | 191,585 | - | 191,585 | - | 191,585 |
| Issuance of Refunding Bonds | 138,795 | - | - | 138,795 | - | - | - | - | 138,795 |
| Bond Issuance Premium | 18,201 | - | - | 18,201 | 19,696 | - | 19,696 | - | 37,897 |
| Bond Issuance Discountor or payment | - | - | - | - | - | - | - | - | - |
| Proceeds from Lease & Service Agreements | - | - | - | - | - | - | - | - | - |
| Payment to Refunded Bonds Escrow Agent | (155,916) | - | - | (155,916) | - | - | - | - | (155,916) |
| Transfers In | 126,970 | 36,016 | 63,752 | 226,738 | 7,226 | - | 7,226 | - | 277,178 |
| Transfers Out | - | - | - | - | - | | - | (136) | (452,082) |
| Total Other Financing Sources (Uses) | 128,050 | 36,016 | 63,752 | 227,818 | 218,507 | - | 218,507 | (136) | 37,457 |
| Net Change in Fund Balances | (93) | (20) | 429 | 316 | 79,588 | (16,704) | 62,884 | (337) | 70,959 |
| Fund Balance - July 1, 2015 | 1,080 | 50 | 80,023 | 81,153 | 28,729 | 41,478 | 70,207 | 6,709 | 273,394 |
| Adjustment | - | - | - | - | - | - | - | - | (11) |
| Fund Balance Adjusted - July 1, 2015 | 1,080 | 50 | 80,023 | 81,153 | 28,729 | 41,478 | 70,207 | 6,709 | 273,383 |
| Fund Balance - June 30, 2016 | 987 | 30 | 80,452 | 81,469 | 108,317 | 24,774 | 133,091 | 6,372 | 344,342 |

**City of Philadelphia** **Schedule III**

**Combining Statement of Fiduciary Net Position**

**Pension Trust Funds**

**June 30, 2016**

*Amounts in thousands of USD*

| | Gas Works Retirement Reserve Fund | Municipal Pension Fund | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash on Deposit and on Hand | 16,987 | - | 16,987 |
| Equity in Treasurer's Account | 470,452 | 4,369,222 | 4,839,674 |
| Securities Lending Collective Investment Pool | - | 330,983 | 330,983 |
| Allowance for Unrealized Loss | - | (315) | (315) |
| Accounts Receivable | 5,879 | 33,183 | 39,062 |
| Due from Brokers for Securities Sold | - | 97,584 | 97,584 |
| Interest and Dividends Receivable | 1,084 | - | 1,084 |
| Due from Other Governmental Units | - | 9,199 | 9,199 |
| Total Assets | 494,402 | 4,839,856 | 5,334,258 |
| **Liabilities** | | | |
| Vouchers Payable | - | 30 | 30 |
| Accounts Payable | 391 | 38 | 429 |
| Salaries and Wages Payable | - | 110 | 110 |
| Due on Return of Securities Loaned | - | 330,983 | 330,983 |
| Due to Brokers for Securities Purchased | 6,175 | 146,747 | 152,922 |
| Accrued Expenses | - | 3,691 | 3,691 |
| Other Liabilities | 4,577 | 282 | 4,859 |
| Total Liabilities | 11,143 | 481,881 | 493,024 |
| Net Position Held in Trust for Pension Benefits | 483,259 | 4,357,975 | 4,841,234 |

## City of Philadelphia

**Schedule IV**

**Combining Statement of Changes in Fiduciary Net Position**
**Pension Trust Funds**
**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Gas Works Retirement Reserve Fund | Municipal Pension Fund | Total |
|---|---|---|---|
| **Additions** | | | |
| Contributions: | | | |
| Employer's Contributions | 21,122 | 660,247 | 681,369 |
| Employees' Contributions | 602 | 67,055 | 67,657 |
| Total Contributions | 21,724 | 727,302 | 749,026 |
| Investment Income: | | | |
| Interest and Dividends | 11,641 | 101,505 | 113,146 |
| Net Gain (Decline) in Fair Value of Investments | - | (239,840) | (239,840) |
| (Less) Investments Expenses | (1,962) | (9,089) | (11,051) |
| Securities Lending Revenue | - | 1,921 | 1,921 |
| Unrealized Gain/Loss | (11,042) | | (11,042) |
| (Less) Securities Lending Expenses | - | (313) | (313) |
| Net Investment Loss | (1,363) | (145,817) | (147,180) |
| Miscellaneous Operating Revenues | 4,235 | 135 | 4,370 |
| Total Additions | 24,596 | 581,620 | 606,216 |
| **Deductions** | | | |
| Personal Services | - | 3,079 | 3,079 |
| Purchase of Services | - | 2,491 | 2,491 |
| Materials and Supplies | - | 44 | 44 |
| Employee Benefits | - | 2,861 | 2,861 |
| Pension Benefits | 50,446 | 881,992 | 932,438 |
| Refunds of Members' Contributions | - | 7,351 | 7,351 |
| Administrative Expenses Paid | 1,610 | - | 1,610 |
| Other Operating Expenses | - | 78 | 78 |
| Total Deductions | 52,056 | 897,897 | 949,953 |
| Change in Net Position | (27,460) | (316,277) | (343,737) |
| Net Position - July 1, 2015 | 510,719 | 4,674,252 | 5,184,971 |
| Net Position - June 30, 2016 | 483,259 | 4,357,975 | 4,841,234 |

**City of Philadelphia** **Schedule V**

**Combining Statement of Fiduciary Net Position**

**Agency Funds**

**June 30, 2016**

*Amounts in thousands of USD*

| | Escrow Fund | Employee Health & Welfare Fund | Departmental Custodial Accounts | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash on Deposit and on Hand | - | - | 108,456 | 108,456 |
| Equity in Treasurer's Account | 31,875 | 18,696 | - | 50,571 |
| Investments | - | - | 2,352 | 2,352 |
| Due from Other Funds | - | - | 699 | 699 |
| Total Assets | 31,875 | 18,696 | 111,507 | 162,078 |
| **Liabilities** | | | | |
| Vouchers Payable | 138 | 1 | - | 139 |
| Payroll Taxes Payable | - | 5,384 | - | 5,384 |
| Funds Held in Escrow | 31,737 | 13,311 | 111,507 | 156,555 |
| Total Liabilities | 31,875 | 18,696 | 111,507 | 162,078 |
| Net Position | - | - | - | - |

**City of Philadelphia** **Schedule VI**

**Statement of Changes in Fiduciary Net Position**

**Agency Funds**

**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Balance 7-1-2015 | Additions | Deductions | Balance 6-30-2016 |
|---|---|---|---|---|
| **Escrow Fund** | | | | |
| **Assets** | | | | |
| Equity in Treasurer's Account | 28,228 | 483,128 | 479,481 | 31,875 |
| **Liabilities** | | | | |
| Funds Held in Escrow | 28,222 | 451,347 | 447,832 | 31,737 |
| Vouchers Payable | 6 | 2,614 | 2,482 | 138 |
| Total Liabilities | 28,228 | 453,961 | 450,314 | 31,875 |
| **Employee Health and Welfare Fund** | | | | |
| **Assets** | | | | |
| Equity in Treasurer's Account | 15,109 | 1,029,830 | 1,026,243 | 18,696 |
| **Liabilities** | | | | |
| Vouchers Payable | 22 | 9,374 | 9,395 | 1 |
| Payroll Taxes Payable | 1,552 | 931,376 | 927,544 | 5,384 |
| Funds Held in Escrow | 13,535 | 98,333 | 98,557 | 13,311 |
| Total Liabilities | 15,109 | 1,039,083 | 1,035,496 | 18,696 |
| **Departmental Custodial Accounts** | | | | |
| **Assets** | | | | |
| Cash on Deposit and on Hand | 92,044 | 383,813 | 367,401 | 108,456 |
| Investments | 4,652 | - | 2,300 | 2,352 |
| Due from Other Funds | 699 | - | - | 699 |
| Total Assets | 97,395 | 383,813 | 369,701 | 111,507 |
| **Liabilities** | | | | |
| Funds Held in Escrow | 97,395 | 383,813 | 369,701 | 111,507 |
| **Totals - Agency Funds** | | | | |
| **Assets** | | | | |
| Cash on Deposit and on Hand | 92,044 | 383,813 | 367,401 | 108,456 |
| Equity in Treasurer's Account | 43,337 | 1,512,958 | 1,505,724 | 50,571 |
| Investments | 4,652 | - | 2,300 | 2,352 |
| Due from Other Funds | 699 | - | - | 699 |
| Total Assets | 140,732 | 1,896,771 | 1,875,425 | 162,078 |
| **Liabilities** | | | | |
| Vouchers Payable | 28 | 11,988 | 11,877 | 139 |
| Payroll Taxes Payable | 1,552 | 931,376 | 927,544 | 5,384 |
| Funds Held in Escrow | 139,152 | 933,493 | 916,090 | 156,555 |
| Total Liabilities | 140,732 | 1,876,857 | 1,855,511 | 162,078 |

## City of Philadelphia

**Schedule VII**

### City Related Schedule of Bonded Debt Outstanding
### June 30, 2016

*Amounts in USD*

| | Date of Issuance | Issued | Fiscal 2016 Outstanding | Maturities | Interest Rates | FY 2017 Debt Service Requirements: Interest | FY 2017 Debt Service Requirements: Principal |
|---|---|---|---|---|---|---|---|
| **Governmental Activities** | | | | | | | |
| **General Obligation Bonds:** | | | | | | | |
| Series 2006 | 7/27/2006 | 217,590,000 | 48,715,000 | 8/2016 to 8/2031 | 4.75 to 5.00 | 2,227,950 | 7,035,000 |
| Series 2007A (Refunding) | 12/20/2007 | 188,910,000 | 90,505,000 | 8/2016 to 8/2019 | 5.00 to 5.25 | 4,038,763 | 23,260,000 |
| Series 2008A (Refunding) | 5/1/2008 | 195,170,000 | 178,720,000 | 12/2016 to 12/2032 | 5.00 to 5.25 | 9,104,487 | 8,500,000 |
| Series 2008B | 1/6/2009 | 165,000,000 | 2,850,000 | 7/2016 | 5.50 | 78,375 | 2,850,000 |
| Series 2009A (Refunding) | 8/13/2009 | 237,025,000 | 237,025,000 | 8/2019 to 8/2031 | 4.25 to 5.45 | 12,030,260 | - |
| Series 2009B (Refunding) | 8/13/2009 [1] | 100,000,000 | 100,000,000 | 8/2027 to 8/2031 | variable | 4,239,000 | - |
| Series 2011 | 4/19/2011 | 139,150,000 | 107,625,000 | 8/2016 to 8/2041 | 5.00 to 6.50 | 6,321,494 | 2,335,000 |
| Series 2011 (Refunding) | 4/19/2011 | 114,570,000 | 48,745,000 | 8/2016 to 8/2020 | 3.00 to 5.25 | 2,107,435 | 10,585,000 |
| Series 2012A (Refunding) | 5/8/2012 | 21,295,000 | 19,925,000 | 9/2016 to 9/2021 | 5.00 | 996,250 | - |
| Series 2013A | 7/30/2013 | 201,360,000 | 188,965,000 | 7/2016 to 7/2033 | 5.00 to 5.25 | 9,493,025 | 6,620,000 |
| Series 2014A (Refunding) | 2/6/2014 | 154,275,000 | 152,120,000 | 7/2016 to 7/2038 | 3.00 to 5.25 | 7,670,837 | 900,000 |
| Series 2015A (Refunding) | 7/8/2015 | 138,795,000 | 138,795,000 | 8/1/2017 8/1/2031 | 4.00 to 5.00 | 6,865,700 | - |
| Series 2015B | 9/30/2015 | 191,585,000 | 191,585,000 | 8/1/2016 8/1/2035 | 2.00 to 5.00 | 9,061,250 | 5,805,000 |
| Total New Money Bonds | | 914,685,000 | 539,740,000 | | | 27,182,094 | 24,645,000 |
| Total Refunding Bonds | | 1,150,040,000 | 965,835,000 | | | 47,052,732 | 43,245,000 |
| Total General Obligation Bonds | | 2,064,725,000 | 1,505,575,000 | | | 74,234,826 | 67,890,000 |
| **Business Type Activities** | | | | | | | |
| **Revenue Bonds** | | | | | | | |
| **Water and Sewer Revenue Bonds:** | | | | | | | |
| Series 1997B | 11/25/1997 [2] | 100,000,000 | 56,900,000 | 8/2016 to 8/2027 | variable | 32,763 | 3,700,000 |
| Series 1999 | 4/22/1999 | 6,700,000 | 246,934 | 7/2016 to 4/2019 | 2.729 | 5,681 | 84,984 |
| Series 2005B (Refunding) | 5/4/2005 [1] | 86,105,000 | 35,325,000 | 8/2016 to 8/2018 | variable | 1,211,888 | 17,145,000 |
| Series 2007A (Refunding) | 5/9/2007 | 191,440,000 | 89,655,000 | 8/2017 to 8/2027 | 4.50 to 5.00 | 3,947,450 | 9,440,000 |
| Series 2007B (Refunding) | 5/9/2007 | 153,595,000 | 151,720,000 | 11/2016 to 11/2031 | 4.00 to 5.00 | 6,902,675 | 265,000 |
| Series 2009A | 5/21/2009 | 140,000,000 | 140,000,000 | 1/2017 to 1/2036 | 4.00 to 5.75 | 7,294,038 | 4,135,000 |
| Series 2009B | 10/14/2009 | 29,432,930 | 21,464,949 | 7/2016 to 6/2033 | 1.193 | 244,253 | 2,167,088 |
| Series 2009C | 10/14/2009 | 46,699,887 | 35,528,947 | 7/2016 to 6/2033 | 1.193 | 408,520 | 2,811,482 |
| Series 2009D | 3/31/2010 | 71,956,891 | 56,396,744 | 7/2016 to 6/2033 | 1.193 | 649,561 | 4,261,715 |
| Series 2010B | 6/17/2010 | 28,500,000 | 25,101,563 | 7/2016 to 6/2033 | 1.193 | 291,724 | 1,418,144 |
| Series 2010A (Refunding) | 4/15/2010 | 396,460,000 | 102,395,000 | 6/2017 to 6/2019 | 2.00 to 5.00 | 4,920,498 | 32,515,000 |
| Series 2010C | 8/5/2010 | 185,000,000 | 185,000,000 | 8/2016 to 8/2040 | 3.00 to 5.00 | 8,241,125 | 31,755,000 |
| Series 2011A | 11/16/2011 | 135,000,000 | 135,000,000 | 1/2033 to 1/2041 | 5.00 | 6,737,000 | - |
| Series 2011B (Refunding) | 11/16/2011 | 49,855,000 | 49,855,000 | 11/2016 to 11/2026 | 5.00 | 2,329,625 | 5,635,000 |
| Series 2012 (Refunding) | 11/1/2012 | 70,370,000 | 65,005,000 | 11/2025 to 11/2028 | 5.00 | 3,250,250 | - |
| Series 2013A | 8/22/2013 | 170,000,000 | 170,000,000 | 1/2017 to 1/2043 | 4.00 to 5.125 | 8,471,700 | 3,425,000 |
| Series 2014 (Refunding) | 1/23/2014 | 93,170,000 | 93,170,000 | 7/2016 to 7/2027 | 3.00 to 5.00 | 4,364,500 | 5,970,000 |
| Series 2014 | 1/23/2014 | 30,000,000 | 30,000,000 | 7/2041 to 7/2043 | 5.00 | 1,500,000 | - |

## City of Philadelphia

**Schedule VII**

### City Related Schedule of Bonded Debt Outstanding

### June 30, 2016

*Amounts in USD*

| | Date of Issuance | Issued | Fiscal 2016 Outstanding | Maturities | Interest Rates | FY 2017 Debt Service Requirements: Interest | FY 2017 Debt Service Requirements: Principal |
|---|---|---|---|---|---|---|---|
| Series 2015A | 4/16/2015 | 275,820,000 | 275,820,000 | 7/2040 to 7/2045 | 5.00 | 13,791,000 | - |
| Series 2015B (Refunding) | 4/16/2015 | 141,740,000 | 141,740,000 | 7/2019 to 7/2033 | 4.00 to 5.00 | 6,810,100 | - |
| Total New Money Bonds | | 1,219,109,708 | 1,131,459,137 | | | 47,667,365 | 53,758,413 |
| Total Refunding Bonds | | 1,182,735,000 | 728,865,000 | | | 33,736,986 | 70,970,000 |
| Total Water Revenue Bonds | | 2,401,844,708 | 1,860,324,137 | | | 81,404,351 | 124,728,413 |
| **Aviation Revenue Bonds:** | | | | | | | |
| Series 1998B | 7/15/1998 | 443,700,000 | 5,000 | 7/1/2028 | 5.125 | 256 | - |
| Series 2005C (Refunding) | 6/2/2005 [1] | 189,500,000 | 121,400,000 | 6/2017 to 6/2025 | variable | 5,478,620 | 10,700,000 |
| Series 2007A | 8/16/2007 | 172,470,000 | 151,010,000 | 6/2017 to 6/2037 | 5.00 | 7,550,500 | 4,230,000 |
| Series 2007B (Refunding) | 8/16/2007 | 82,915,000 | 51,160,000 | 6/2017 to 6/2027 | 5.00 | 2,558,000 | 4,375,000 |
| Series 2009A (Refunding) | 4/14/2009 | 45,715,000 | 34,965,000 | 6/2017 to 6/2029 | 4.00 to 5.375 | 1,710,704 | 2,035,000 |
| Series 2010A | 11/15/2010 | 273,065,000 | 257,100,000 | 6/2017 to 6/2040 | 3.75 to 5.25 | 12,878,962 | 5,790,000 |
| Series 2010C (Refunding) | 11/15/2010 | 54,730,000 | 17,565,000 | 6/2017 to 6/2018 | 5.00 | 878,250 | 8,570,000 |
| Series 2010D (Refunding) | 11/15/2010 | 272,475,000 | 201,795,000 | 6/2017 to 6/2028 | 4.00 to 5.25 | 10,364,200 | 16,040,000 |
| Series 2011A (Refunding) | 12/14/2011 | 199,040,000 | 168,225,000 | 6/2017 to 6/2028 | 4.625 to 5.00 | 8,355,656 | 6,985,000 |
| Series 2011B (Refunding) | 12/14/2011 | 34,790,000 | 27,820,000 | 6/2017 to 6/2031 | 3.375 to 5.00 | 1,214,019 | 1,380,000 |
| Series 2015A (Refunding) | 9/3/2015 | 97,780,000 | 93,660,000 | 6/2017 to 6/2035 | 4.00 to 5.00 | 4,533,550 | 3,135,000 |
| Total New Money Bonds | | 889,235,000 | 408,115,000 | | | 20,429,718 | 10,020,000 |
| Total Refunding Bonds | | 976,945,000 | 716,590,000 | | | 35,092,999 | 53,220,000 |
| Total Aviation Revenue Bonds | | 1,866,180,000 | 1,124,705,000 | | | 55,522,717 | 63,240,000 |
| Total Revenue Bonds | | 4,268,024,708 | 2,985,029,137 | | | 136,927,068 | 187,968,413 |
| Total All Bonds | | 6,332,749,708 | 4,490,604,137 | | | 211,161,894 | 255,858,413 |

NOTES:

[1] Assumes interest rate to be fixed swap rate on hedged variable rate bonds

[2] Based on latest available estimated rates at June 30, 2016

**City of Philadelphia** **Schedule VIII**

**Budgetary Comparison Schedule**

**Water Operating Fund**

**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 630,701 | 630,979 | 643,035 | 12,056 |
| Revenue from Other Governments | 975 | 744 | 744 | - |
| Revenue from Other Funds | 105,638 | 87,233 | 36,756 | (50,477) |
| Total Revenues | 737,314 | 718,956 | 680,535 | (38,421) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 126,121 | 126,131 | 118,415 | 7,716 |
| Pension Contributions | 57,800 | 59,115 | 59,115 | - |
| Other Employee Benefits | 53,115 | 51,790 | 47,276 | 4,514 |
| Sub-Total Employee Compensation | 237,036 | 237,036 | 224,806 | 12,230 |
| Purchase of Services | 177,090 | 177,090 | 148,989 | 28,101 |
| Materials and Supplies | 49,037 | 48,849 | 42,799 | 6,050 |
| Equipment | 5,407 | 5,595 | 2,722 | 2,873 |
| Contributions, Indemnities and Taxes | 6,605 | 6,605 | 5,441 | 1,164 |
| Debt Service | 227,139 | 227,139 | 219,133 | 8,006 |
| Payments to Other Funds | 65,000 | 65,000 | 60,733 | 4,267 |
| Total Expenditures and Encumbrances | 767,314 | 767,314 | 704,623 | 62,691 |
| Operating Surplus (Deficit) for the Year | (30,000) | (48,358) | (24,088) | 24,270 |
| Fund Balance Available for Appropriation, July 1, 2015 | - | - | - | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 30,000 | 30,000 | 24,088 | (5,912) |
| Adjusted Fund Balance, July 1, 2015 | 30,000 | 30,000 | 24,088 | (5,912) |
| Fund Balance Available for Appropriation, June 30, 2016 | - | (18,358) | - | 18,358 |

**City of Philadelphia** **Schedule IX**

**Budgetary Comparison Schedule**

**Water Residual Fund**

**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual |
|---|---|---|---|---|
| | Original | Final | Actual | Positive (Negative) |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 1,224 | 1,224 | 34 | (1,190) |
| Revenue from Other Funds | 33,248 | 33,248 | 32,692 | (556) |
| Total Revenues | 34,472 | 34,472 | 32,726 | (1,746) |
| **Expenditures and Encumbrances** | | | | |
| Payments to Other Funds | 34,724 | 34,724 | 32,556 | 2,168 |
| Total Expenditures and Encumbrances | 34,724 | 34,724 | 32,556 | 2,168 |
| Operating Surplus (Deficit) for the Year | (252) | (252) | 170 | 422 |
| Fund Balance Available for Appropriation, July 1, 2015 | 5,467 | 14,936 | 14,936 | - |
| Fund Balance Available for Appropriation, June 30, 2016 | 5,215 | 14,684 | 15,106 | 422 |

**City of Philadelphia** **Schedule X**

**Budgetary Comparison Schedule**

**County Liquid Fuels Tax Fund**

**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual |
|---|---|---|---|---|
| | Original | Final | Actual | Positive (Negative) |
| **Revenues** | | | | |
| Revenue from Other Governments | 4,950 | 4,950 | 4,593 | (357) |
| Total Revenues | 4,950 | 4,950 | 4,593 | (357) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 3,734 | 3,734 | 3,734 | - |
| Purchase of Services | 861 | 861 | 856 | 5 |
| Materials and Supplies | 336 | 336 | 235 | 101 |
| Equipment | - | - | 95 | (95) |
| Payments to Other Funds | 19 | 19 | 19 | - |
| Total Expenditures and Encumbrances | 4,950 | 4,950 | 4,939 | 11 |
| Operating Surplus (Deficit) for the Year | - | - | (346) | (346) |
| Fund Balance Available for Appropriation, July 1, 2015 | 2,436 | 2,101 | 2,101 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 25 | 25 | 42 | 17 |
| Adjusted Fund Balance, July 1, 2015 | 2,461 | 2,126 | 2,143 | 17 |
| Fund Balance Available for Appropriation, June 30, 2016 | 2,461 | 2,126 | 1,797 | (329) |

**City of Philadelphia** **Schedule XI**
**Budgetary Comparison Schedule**
**Special Gasoline Tax Fund**
**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 1 | 1 | 2 | 1 |
| Revenue from Other Governments | 30,000 | 30,000 | 33,423 | 3,423 |
| Total Revenues | 30,001 | 30,001 | 33,425 | 3,424 |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 3,000 | 3,000 | 3,000 | - |
| Pension Contributions | 500 | 500 | 500 | - |
| Other Employee Benefits | 500 | 500 | 500 | - |
| Sub-Total Employee Compensation | 4,000 | 4,000 | 4,000 | - |
| Purchase of Services | 15,559 | 16,113 | 15,003 | 1,110 |
| Materials and Supplies | 9,926 | 9,372 | 9,253 | 119 |
| Payments to Other Funds | 15 | 15 | 15 | - |
| Total Expenditures and Encumbrances | 29,500 | 29,500 | 28,271 | 1,229 |
| Operating Surplus (Deficit) for the Year | 501 | 501 | 5,154 | 4,653 |
| Fund Balance Available for Appropriation, July 1, 2015 | 23,347 | 25,655 | 25,655 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 500 | 500 | 717 | 217 |
| Adjusted Fund Balance, July 1, 2015 | 23,847 | 26,155 | 26,372 | 217 |
| Fund Balance Available for Appropriation, June 30, 2016 | 24,348 | 26,656 | 31,526 | 4,870 |

## City of Philadelphia
**Schedule XII**

**Budgetary Comparison Schedule**
**Hotel Room Rental Tax Fund**
**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual |
|---|---|---|---|---|
| | Original | Final | Actual | Positive (Negative) |
| **Revenues** | | | | |
| Taxes | 62,700 | 62,700 | 58,501 | (4,199) |
| Total Revenues | 62,700 | 62,700 | 58,501 | (4,199) |
| **Expenditures and Encumbrances** | | | | |
| Contributions, Indemnities and Taxes | 62,700 | 62,000 | 62,700 | (700) |
| Total Expenditures and Encumbrances | 62,700 | 62,000 | 62,700 | (700) |
| Operating Surplus (Deficit) for the Year | - | 700 | (4,199) | (4,899) |
| Fund Balance Available for Appropriation, July 1, 2015 | 3,584 | 5,037 | 5,037 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 3,468 | 3,468 |
| Adjusted Fund Balance, July 1, 2015 | 3,584 | 5,037 | 8,505 | 3,468 |
| Fund Balance Available for Appropriation, June 30, 2016 | 3,584 | 5,737 | 4,306 | (1,431) |

**City of Philadelphia** **Schedule XIII**
**Budgetary Comparison Schedule**
**Aviation Operating Fund**
**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual |
|---|---|---|---|---|
| | Original | Final | Actual | Positive (Negative) |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 428,816 | 410,956 | 391,660 | (19,296) |
| Revenue from Other Governments | 4,500 | 4,500 | 2,137 | (2,363) |
| Revenue from Other Funds | 2,500 | 2,500 | 1,158 | (1,342) |
| Total Revenues | 435,816 | 417,956 | 394,955 | (23,001) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 71,874 | 71,874 | 66,544 | 5,330 |
| Pension Contributions | 31,300 | 33,535 | 33,515 | 20 |
| Other Employee Benefits | 25,894 | 23,660 | 19,476 | 4,184 |
| Sub-Total Employee Compensation | 129,068 | 129,069 | 119,535 | 9,534 |
| Purchase of Services | 137,169 | 137,169 | 107,552 | 29,617 |
| Materials and Supplies | 10,361 | 10,346 | 6,714 | 3,632 |
| Equipment | 8,940 | 8,954 | 2,775 | 6,179 |
| Contributions, Indemnities and Taxes | 6,717 | 6,717 | 1,696 | 5,021 |
| Debt Service | 123,505 | 123,505 | 117,282 | 6,223 |
| Payments to Other Funds | 24,623 | 24,623 | 7,539 | 17,084 |
| Total Expenditures and Encumbrances | 440,383 | 440,383 | 363,093 | 77,290 |
| Operating Surplus (Deficit) for the Year | (4,567) | (22,427) | 31,862 | 54,289 |
| Fund Balance Available for Appropriation, July 1, 2015 | 27,410 | 28,348 | 28,348 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 17,000 | 17,000 | 11,206 | (5,794) |
| Adjusted Fund Balance, July 1, 2015 | 44,410 | 45,348 | 39,554 | (5,794) |
| Fund Balance Available for Appropriation, June 30, 2016 | 39,843 | 22,921 | 71,416 | 48,495 |

**City of Philadelphia** **Schedule XIV**

**Budgetary Comparison Schedule**

**Community Development Fund**

**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 250 | 250 | 3,362 | 3,112 |
| Revenue from Other Governments | 93,911 | 73,911 | 40,174 | (33,737) |
| Total Revenues | 94,161 | 74,161 | 43,536 | (30,625) |
| **Other Sources** | | | | |
| Decrease in Financed Reserves | - | - | 8,298 | 8,298 |
| Total Revenues and Other Sources | 94,161 | 74,161 | 51,834 | (22,327) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 6,518 | 6,518 | 3,996 | 2,522 |
| Pension Contributions | 2,609 | 2,609 | 1,614 | 995 |
| Other Employee Benefits | 1,627 | 1,627 | 1,457 | 170 |
| Sub-Total Employee Compensation | 10,754 | 10,754 | 7,067 | 3,687 |
| Purchase of Services | 63,088 | 63,088 | 45,105 | 17,983 |
| Materials and Supplies | 234 | 234 | 127 | 107 |
| Equipment | 55 | 55 | 22 | 33 |
| Payments to Other Funds | 20,000 | 20,000 | 20 | 19,980 |
| Advances, Subsidies, Miscellaneous | 30 | 30 | - | 30 |
| Total Expenditures and Encumbrances | 94,161 | 94,161 | 52,341 | 41,820 |
| Operating Surplus (Deficit) for the Year | - | (20,000) | (507) | 19,493 |
| Fund Balance Available for Appropriation, July 1, 2015 | - | (7,107) | (7,107) | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 2,305 | 2,305 |
| Prior Period Adjustments | - | 7,107 | - | (7,107) |
| Adjusted Fund Balance, July 1, 2015 | - | - | (4,802) | (4,802) |
| Fund Balance Available for Appropriation, June 30, 2016 | - | (20,000) | (5,309) | 14,691 |

**City of Philadelphia** **Schedule XV**

**Budgetary Comparison Schedule**

**Car Rental Tax Fund**

**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Taxes | 5,614 | 5,822 | 5,692 | (130) |
| Locally Generated Non-Tax Revenue | 1 | 1 | 20 | 19 |
| Total Revenues | 5,615 | 5,823 | 5,712 | (111) |
| **Expenditures and Encumbrances** | | | | |
| Purchase of Services | 6,000 | 6,000 | 6,000 | - |
| Total Expenditures and Encumbrances | 6,000 | 6,000 | 6,000 | - |
| Operating Surplus (Deficit) for the Year | (385) | (177) | (288) | (111) |
| Fund Balance Available for Appropriation, July 1, 2015 | 7,273 | 6,669 | 6,669 | - |
| Fund Balance Available for Appropriation, June 30, 2016 | 6,888 | 6,492 | 6,381 | (111) |

## City of Philadelphia
**Schedule XVI**

**Budgetary Comparison Schedule**
**Housing Trust Fund**
**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual |
|---|---|---|---|---|
| | Original | Final | Actual | Positive (Negative) |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 12,510 | 12,510 | 13,082 | 572 |
| Revenue from Other Funds | - | - | - | - |
| Total Revenues | 12,510 | 12,510 | 13,082 | 572 |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 1,250 | 1,250 | 775 | 475 |
| Purchase of Services | 23,250 | 25,250 | 17,931 | 7,319 |
| Total Expenditures and Encumbrances | 24,500 | 26,500 | 18,706 | 7,794 |
| Operating Surplus (Deficit) for the Year | (11,990) | (13,990) | (5,624) | 8,366 |
| Fund Balance Available for Appropriation, July 1, 2015 | 629 | 6,360 | 6,360 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | 12,000 | 8,000 | 1,480 | (6,520) |
| Revenue Adjustments - Net | - | - | - | - |
| Prior Period Adjustments | - | - | - | - |
| Other Adjustments | - | - | - | - |
| Adjusted Fund Balance, July 1, 2015 | 12,629 | 14,360 | 7,840 | (6,520) |
| Fund Balance Available for Appropriation, June 30, 2016 | 639 | 370 | 2,216 | 1,846 |

**City of Philadelphia** **Schedule XVII**

**Budgetary Comparison Schedule**

**General Capital Improvement Funds**

**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Locally Generated Non-Tax Revenue | 542,473 | 543,473 | 406 | (543,067) |
| Revenue from Other Governments | 315,476 | 317,476 | 53,830 | (263,646) |
| Revenue from Other Funds | 24,764 | 32,271 | 4,668 | (27,603) |
| Total Revenues | 882,713 | 893,220 | 58,904 | (834,316) |
| **Other Sources (Uses)** | | | | |
| Decrease in Unreimbursed Committments | - | - | (42,124) | (42,124) |
| Proceeds from Bond Sales | - | - | 211,281 | 211,281 |
| Total Revenues and Other Sources | 882,713 | 893,220 | 228,061 | (665,159) |
| **Expenditures and Encumbrances** | | | | |
| Capital Outlay | 882,713 | 893,220 | 150,058 | 743,162 |
| Operating Surplus (Deficit) for the Year | - | - | 78,003 | 78,003 |
| Fund Balance Available for Appropriation, July 1, 2015 | - | - | (118,437) | (118,437) |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 3,135 | 3,135 |
| Adjusted Fund Balance, July 1, 2015 | - | - | (115,302) | (115,302) |
| Fund Balance Available for Appropriation, June 30, 2016 | - | - | (37,299) | (37,299) |

**City of Philadelphia** **Schedule XVIII**

**Budgetary Comparison Schedule**
**Acute Care Hospital Assessment Fund**
**For the Fiscal Year Ended June 30, 2016**

*Amounts in thousands of USD*

| | Budgeted Amounts | | | Final Budget to Actual Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| **Revenues** | | | | |
| Tax Revenue | 157,000 | 157,000 | 147,054 | (9,946) |
| Total Revenues | 157,000 | 157,000 | 147,054 | (9,946) |
| **Other Sources** | | | | |
| Decrease in Unreimbursed Committments | - | - | (1,278) | (1,278) |
| Total Revenues and Other Sources | 157,000 | 157,000 | 145,776 | (11,224) |
| **Expenditures and Encumbrances** | | | | |
| Personal Services | 5,163 | 5,163 | 1,432 | 3,731 |
| Pension Contributions | 42 | 42 | 1 | 41 |
| Other Employee Benefits | 226 | 225 | 5 | 220 |
| Sub-Total Employee Compensation | 5,431 | 5,430 | 1,438 | 3,992 |
| Purchase of Services | 155,639 | 155,639 | 142,582 | 13,057 |
| Materials and Supplies | 96 | 96 | 9 | 87 |
| Equipment | - | - | 64 | (64) |
| Payments to Other Funds | 2,000 | 2,000 | 2,000 | - |
| Total Expenditures and Encumbrances | 163,166 | 163,165 | 146,093 | 17,072 |
| Operating Surplus (Deficit) for the Year | (6,166) | (6,165) | (317) | 5,848 |
| Fund Balance Available for Appropriation, July 1, 2015 | 6,460 | 11,033 | 11,033 | - |
| **Operations in Respect to Prior Fiscal Years** | | | | |
| Commitments Cancelled - Net | - | - | 479 | 479 |
| Adjusted Fund Balance, July 1, 2015 | 6,460 | 11,033 | 11,512 | 479 |
| Fund Balance Available for Appropriation, June 30, 2016 | 294 | 4,868 | 11,195 | 6,327 |

**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, 2016 (with comparative actual amounts for the Fiscal Year Ended June 30, 2015)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| | Original | Final | FY 2016 Actual | Positive (Negative) | FY 2015 Actual | Increase (Decrease) |
| **Revenue** | | | | | | |
| **Taxes** | | | | | | |
| Real Property Tax: | | | | | | |
| Current | 535,416 | 524,416 | 521,242 | (3,174) | 493,099 | 28,143 |
| Prior Years | 45,701 | 48,954 | 50,405 | 1,451 | 43,350 | 7,055 |
| Total Real Property Tax | 581,117 | 573,370 | 571,647 | (1,723) | 536,449 | 35,198 |
| Wage and Earnings Taxes: | | | | | | |
| Current | 1,364,063 | 1,373,011 | 1,364,612 | (8,399) | 1,318,753 | 45,859 |
| Prior Years | 6,500 | 6,500 | 8,397 | 1,897 | 7,094 | 1,303 |
| Total Wage and Earnings Taxes | 1,370,563 | 1,379,511 | 1,373,009 | (6,502) | 1,325,847 | 47,162 |
| Business Taxes: | | | | | | |
| Business Income & Receipts Taxes: | | | | | | |
| Current | 411,374 | 412,707 | 427,134 | 14,427 | 402,121 | 25,013 |
| Prior Years | 42,500 | 42,500 | 47,037 | 4,537 | 36,114 | 10,923 |
| Total Business Income & Receipts Taxes | 453,874 | 455,207 | 474,171 | 18,964 | 438,235 | 35,936 |
| Net Profits Tax: | | | | | | |
| Current | 15,493 | 19,820 | 23,333 | 3,513 | 14,692 | 8,641 |
| Prior Years | 3,000 | 3,000 | 2,056 | (944) | 6,464 | (4,408) |
| Total Net Profits Tax | 18,493 | 22,820 | 25,389 | 2,569 | 21,156 | 4,233 |
| Total Business Taxes | 472,367 | 478,027 | 499,560 | 21,533 | 459,391 | 40,169 |
| Other Taxes: | | | | | | |
| Sales Tax | 149,371 | 167,634 | 169,383 | 1,749 | 149,458 | 19,925 |
| Amusement Tax | 19,174 | 19,617 | 19,397 | (220) | 19,005 | 392 |
| Real Property Transfer Tax | 221,850 | 237,527 | 237,347 | (180) | 203,370 | 33,977 |
| Parking Lot Tax | 88,636 | 91,911 | 92,665 | 754 | 79,706 | 12,959 |
| Smokeless Tobacco | 640 | 753 | 771 | 18 | 749 | 22 |
| Miscellaneous Taxes | 8,561 | 3,075 | 2,869 | (206) | 3,045 | (176) |
| Total Other Taxes | 488,232 | 520,517 | 522,432 | 1,915 | 455,333 | 67,099 |
| Total Taxes | 2,912,279 | 2,951,425 | 2,966,648 | 15,223 | 2,777,020 | 189,628 |
| **Locally Generated Non-Tax Revenue** | | | | | | |
| Rentals from Leased City Properties | 6,440 | 6,061 | 6,062 | 1 | 5,894 | 168 |
| Licenses and Permits | 55,876 | 56,298 | 56,040 | (258) | 55,356 | 684 |
| Fines, Forfeits, Penalties, Confiscated Money and Property | 18,478 | 17,529 | 17,579 | 50 | 19,532 | (1,953) |
| Interest Income | 1,969 | 4,725 | 5,628 | 903 | 1,751 | 3,877 |
| Service Charges and Fees | 135,942 | 137,471 | 137,040 | (431) | 129,566 | 7,474 |
| Other | 57,102 | 70,555 | 68,641 | (1,914) | 82,296 | (13,655) |
| Total Locally Generated Non-Tax Revenue | 275,807 | 292,639 | 290,990 | (1,649) | 294,395 | (3,405) |
| **Revenue from Other Governments** | | | | | | |
| United States Government: | | | | | | |
| Grants and Reimbursements | 29,417 | 29,710 | 29,655 | (55) | 30,109 | (454) |
| Commonwealth of Pennsylvania: | | | | | | |
| Grants and Other Payments | 211,667 | 219,328 | 223,651 | 4,323 | 212,727 | 10,924 |
| Other Governmental Units | 410,731 | 430,684 | 435,770 | 5,086 | 406,485 | 29,285 |
| Total Revenue from Other Governments | 651,815 | 679,722 | 689,076 | 9,354 | 649,321 | 39,755 |
| **Revenue from Other Funds** | 65,240 | 62,410 | 42,253 | (20,157) | 39,031 | 3,222 |
| Total Revenues | 3,905,141 | 3,986,196 | 3,988,967 | 2,771 | 3,759,767 | 229,200 |

**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, 2016 (with comparative actual amounts for the Fiscal Year Ended June 30, 2015)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| | Original | Final | FY 2016 Actual | Positive (Negative) | FY 2015 Actual | Increase (Decrease) |
| **Obligations** | | | | | | |
| **General Government** | | | | | | |
| City Council | 41,725 | 17,316 | 15,512 | (1,804) | 14,635 | 877 |
| Mayor's Office: | | | | | | |
| Mayor's Office | 5,032 | 5,414 | 5,327 | (87) | 5,001 | 326 |
| Scholarships | 200 | 200 | 200 | - | 200 | - |
| Mural Arts Program | 1,646 | 1,651 | 1,651 | - | 1,458 | 193 |
| Labor Relations | 572 | 572 | 509 | (63) | 667 | (158) |
| MDO Office of Technology | 83,882 | 87,613 | 68,166 | (19,447) | 63,874 | 4,292 |
| Office of Property Assessment | 13,285 | 13,284 | 12,253 | (1,031) | 12,569 | (316) |
| Mayor's Office of Community Services | 605 | 1,044 | 939 | (105) | 500 | 439 |
| Transportation | 734 | 734 | 691 | (43) | 799 | (108) |
| Law | 14,642 | 16,290 | 14,573 | (1,717) | 15,743 | (1,170) |
| Board of Ethics | 1,067 | 1,067 | 925 | (142) | 898 | 27 |
| Youth Commission | 143 | 143 | 101 | (42) | 72 | 29 |
| Inspector General | 1,669 | 1,669 | 1,647 | (22) | 1,487 | 160 |
| Office of Sustainability | 835 | 835 | 718 | (117) | - | 718 |
| City Planning Commission | 2,505 | 2,505 | 2,391 | (114) | 2,278 | 113 |
| Commission on Human Relations | 2,147 | 2,147 | 1,902 | (245) | 1,823 | 79 |
| Zoning Code Commisssion | - | - | - | - | - | - |
| Arts & Culture | 4,173 | 4,173 | 4,151 | (22) | 3,969 | 182 |
| Board of Revision of Taxes | 856 | 995 | 995 | - | 1,036 | (41) |
| Total General Government | 175,718 | 157,652 | 132,651 | (25,001) | 127,009 | 5,642 |
| **Operation of Service Departments** | | | | | | |
| Housing | 3,590 | 3,593 | 3,590 | (3) | 2,600 | 990 |
| Managing Director | 78,755 | 81,949 | 81,949 | - | 78,029 | 3,920 |
| Police | 643,010 | 665,189 | 658,914 | (6,275) | 632,695 | 26,219 |
| Streets | 125,407 | 145,566 | 145,412 | (154) | 144,592 | 820 |
| Fire | 219,083 | 246,219 | 246,243 | 24 | 232,528 | 13,715 |
| Public Health | 116,292 | 122,908 | 121,476 | (1,432) | 113,480 | 7,996 |
| Office-Behavioral Health/Mental Retardation | 13,976 | 13,976 | 13,971 | (5) | 13,967 | 4 |
| Parks and Recreation | 57,875 | 60,575 | 59,693 | (882) | 56,719 | 2,974 |
| Fairmount Park Commission | - | - | - | - | - | - |
| Atwater Kent Museum | 293 | 292 | 273 | (19) | 231 | 42 |
| Camp William Penn | - | - | - | - | - | - |
| Public Property | 187,825 | 191,641 | 190,061 | (1,580) | 189,235 | 826 |
| Department of Human Services | 102,729 | 102,932 | 98,109 | (4,823) | 96,545 | 1,564 |
| Philadelphia Prisons | 253,792 | 254,873 | 252,998 | (1,875) | 246,158 | 6,840 |
| Office of Supportive Housing | 45,544 | 45,757 | 45,692 | (65) | 45,178 | 514 |
| Office of Fleet Management | 61,578 | 61,771 | 61,753 | (18) | 60,665 | 1,088 |
| Licenses and Inspections | 31,477 | 31,637 | 30,606 | (1,031) | 29,812 | 794 |
| Board of L & I Review | 168 | 168 | 150 | (18) | 138 | 12 |
| Board of Building Standards | 74 | 74 | 68 | (6) | 63 | 5 |
| Zoning Board of Adjustment | 372 | 372 | 361 | (11) | 374 | (13) |
| Records | 4,823 | 4,823 | 4,683 | (140) | 4,496 | 187 |
| Philadelphia Historical Commission | 425 | 425 | 343 | (82) | 384 | (41) |
| Art Museum | 2,550 | 2,620 | 2,620 | - | 2,585 | 35 |
| Philadelphia Free Library | 40,101 | 40,466 | 39,764 | (702) | 40,669 | (905) |
| Total Operations of Service Departments | 1,989,739 | 2,077,826 | 2,058,729 | (19,097) | 1,991,143 | 67,586 |
| **Financial Management** | | | | | | |
| Office of Director of Finance | 14,431 | 20,264 | 19,638 | (626) | 15,748 | 3,890 |
| Department of Revenue | 25,771 | 26,212 | 25,031 | (1,181) | 23,023 | 2,008 |
| Sinking Fund Commission | 245,945 | 245,945 | 224,731 | (21,214) | 238,388 | (13,657) |
| Procurement | 4,838 | 5,838 | 5,369 | (469) | 4,859 | 510 |
| City Treasurer | 1,126 | 1,126 | 1,115 | (11) | 925 | 190 |
| Audit of City Operations | 8,295 | 8,615 | 8,412 | (203) | 8,272 | 140 |
| Total Financial Management | 300,406 | 308,000 | 284,296 | (23,704) | 291,215 | (6,919) |

**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, 2016 (with comparative actual amounts for the Fiscal Year Ended June 30, 2015)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| | Original | Final | FY 2016 Actual | Positive (Negative) | FY 2015 Actual | Increase (Decrease) |
| **Obligations (Continued)** | | | | | | |
| **City-Wide Appropriations Under the Director of Finance** | | | | | | |
| Fringe Benefits | 1,172,182 | 1,169,594 | 1,181,225 | 11,631 | 1,100,141 | 81,084 |
| PGW Rental Reimbursement | - | - | - | - | - | - |
| Community College of Philadelphia | 30,309 | 30,309 | 30,309 | - | 26,909 | 3,400 |
| Legal Services | - | - | - | - | - | - |
| Hero Award | 25 | 25 | 18 | (7) | 18 | - |
| Refunds | 250 | 250 | - | (250) | - | - |
| Indemnities | 38,000 | 4 | - | (4) | - | - |
| Office of Risk Management | 3,227 | 3,227 | 3,042 | (185) | 5,970 | (2,928) |
| Witness Fees | 172 | 172 | 119 | (53) | 121 | (2) |
| Contribution to School District | 79,185 | 104,185 | 104,185 | - | 69,110 | 35,075 |
| Total City-Wide Under Director of Finance | 1,323,350 | 1,307,766 | 1,318,898 | 11,132 | 1,202,269 | 116,629 |
| **Promotion and Public Relations** | | | | | | |
| City Representative | 1,034 | 1,084 | 1,069 | (15) | 1,024 | 45 |
| Commerce | 23,058 | 24,164 | 22,963 | (1,201) | 24,180 | (1,217) |
| Total Promotion and Public Relations | 24,092 | 25,248 | 24,032 | (1,216) | 25,204 | (1,172) |
| **Personnel** | | | | | | |
| Civic Service Commission | 178 | 181 | 180 | (1) | 184 | (4) |
| Personnel Director | 6,434 | 6,435 | 6,229 | (206) | 5,938 | 291 |
| Total Personnel | 6,612 | 6,616 | 6,409 | (207) | 6,122 | 287 |
| **Administration of Justice** | | | | | | |
| Clerk of Quarter Sessions | - | - | - | - | - | - |
| Register of Wills | 3,522 | 3,772 | 3,670 | (102) | 3,608 | 62 |
| District Attorney | 35,482 | 35,698 | 35,698 | - | 35,561 | 137 |
| Sheriff | 19,203 | 23,431 | 23,431 | - | 22,188 | 1,243 |
| First Judicial District | 108,773 | 116,657 | 116,657 | - | 116,667 | (10) |
| Total Administration of Justice | 166,980 | 179,558 | 179,456 | (102) | 178,024 | 1,432 |
| **City-Wide Appropriations Under the First Judicial District** | | | | | | |
| Juror Fees | 1,542 | 1,229 | 1,229 | - | 1,310 | (81) |
| **Conduct of Elections** | | | | | | |
| City Commissioners | 9,663 | 10,097 | 10,095 | (2) | 9,219 | 876 |
| Total Obligations | 3,998,102 | 4,073,992 | 4,015,795 | (58,197) | 3,831,515 | 184,280 |
| **Operating Surplus (Deficit) for the Year** | (92,961) | (87,796) | (26,828) | (60,968) | (71,748) | 44,920 |

**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, 2016 (with comparative actual amounts for the Fiscal Year Ended June 30, 2015)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| | Original | Final | FY 2016 Actual | Positive (Negative) | FY 2015 Actual | Increase (Decrease) |
| ***Revenue*** | | | | | | |
| **Locally Generated Non-Tax Revenue** | | | | | | |
| Sales and Charges - Current | 528,596 | 528,596 | 547,139 | 18,543 | 546,084 | 1,055 |
| Sales and Charges - Prior Years | 47,324 | 47,324 | 40,433 | (6,891) | 39,827 | 606 |
| Fire Service Connections | 2,284 | 2,284 | 2,737 | 453 | 2,374 | 363 |
| Surcharges | 6,020 | 6,020 | 7,375 | 1,355 | 3,407 | 3,968 |
| Fines and Penalties | 1,196 | 1,196 | 1,069 | (127) | 999 | 70 |
| Miscellaneous Charges | 2,469 | 2,474 | 1,033 | (1,441) | 1,536 | (503) |
| Charges to Other Municipalities | 33,500 | 33,773 | 32,389 | (1,384) | 33,221 | (832) |
| Licenses and Permits | 3,040 | 3,040 | 3,796 | 756 | 3,842 | (46) |
| Interest Income | 450 | 450 | 20 | (430) | 270 | (250) |
| Fleet Management - Sale of Vehicles & Equipment | 150 | 150 | 67 | (83) | 83 | (16) |
| Contributions from Sinking Fund Reserve | - | - | - | - | 424 | (424) |
| Reimbursement of Expenditures | 420 | 420 | 1,954 | 1,534 | 217 | 1,737 |
| Repair Loan Program | 4,352 | 4,352 | 3,518 | (834) | 3,218 | 300 |
| Other | 900 | 900 | 1,505 | 605 | 4,720 | (3,215) |
| Total Locally Generated Non-Tax Revenue | 630,701 | 630,979 | 643,035 | 12,056 | 640,222 | 2,813 |
| **Revenue from Other Governments** | | | | | | |
| State | 775 | 744 | 744 | - | 839 | (95) |
| Federal | 200 | - | - | - | 244 | (244) |
| Total Revenue from Other Governments | 975 | 744 | 744 | - | 1,083 | (339) |
| **Revenue from Other Funds** | 105,638 | 87,233 | 36,756 | (50,477) | 35,541 | 1,215 |
| Total Revenues | 737,314 | 718,956 | 680,535 | (38,421) | 676,846 | 3,689 |
| ***Obligations*** | | | | | | |
| Mayor's Office of Information Services | 22,997 | 22,997 | 16,222 | 6,775 | 17,069 | (847) |
| Public Property | 4,043 | 4,043 | 4,043 | - | 3,960 | 83 |
| Office of Fleet Management | 8,733 | 8,733 | 7,871 | 862 | 8,323 | (452) |
| Water Department | 367,167 | 372,607 | 333,347 | 39,260 | 347,882 | (14,535) |
| Office of the Director of Finance | - | - | - | - | - | - |
| City-Wide Appropriation Under the Director of Finance: | | | | | | |
| Pension Contributions | 57,800 | 59,122 | 59,115 | 7 | 52,277 | 6,838 |
| Other Employee Benefits | 53,115 | 51,793 | 47,276 | 4,517 | 48,293 | (1,017) |
| Contributions, Indemnities and Taxes | 6,500 | 1,060 | - | 1,060 | - | - |
| Advances, Subsidies, Miscellaneous | - | - | - | - | - | - |
| Department of Revenue | 16,269 | 16,269 | 15,020 | 1,249 | 14,888 | 132 |
| Sinking Fund Commission | 227,139 | 227,139 | 219,133 | 8,006 | 200,799 | 18,334 |
| Procurement Department | 77 | 77 | 77 | - | 61 | 16 |
| Law | 3,241 | 3,241 | 2,287 | 954 | 2,455 | (168) |
| Mayor's Office of Transportation | 139 | 139 | 138 | 1 | 228 | (90) |
| Mayor's Office of Sustainability | 94 | 94 | 94 | - | - | 94 |
| Total Obligations | 767,314 | 767,314 | 704,623 | 62,691 | 696,235 | 8,388 |
| **Operating Surplus (Deficit) for the Year** | (30,000) | (48,358) | (24,088) | 24,270 | (19,389) | (4,699) |

**Schedule of Budgetary Actual and Estimated Revenues and Obligations**
**Aviation Operating Fund**
*Amounts in thousands of USD*
**For the Fiscal Year Ended June 30, 2016 (with comparative actual amounts for the Fiscal Year Ended June 30, 2015)**

| | Budgeted Amounts | | | Final Budget to Actual | | |
|---|---|---|---|---|---|---|
| ***Revenue*** | Original | Final | FY 2016 Actual | Positive (Negative) | FY 2015 Actual | Increase (Decrease) |
| **Locally Generated Non-Tax Revenue** | | | | | | |
| Concessions | 40,000 | 40,000 | 47,060 | 7,060 | 38,806 | 8,254 |
| Space Rentals | 164,771 | 143,771 | 134,797 | (8,974) | 118,268 | 16,529 |
| Landing Fees | 77,000 | 89,900 | 87,170 | (2,730) | 79,577 | 7,593 |
| Parking | 27,000 | 27,000 | 29,963 | 2,963 | 29,098 | 865 |
| Car Rentals | 24,000 | 20,365 | 18,766 | (1,599) | 18,036 | 730 |
| Payment in Aid - Terminal Building | - | - | - | - | - | - |
| Interest Earnings | 1,000 | 250 | 566 | 316 | 256 | 310 |
| Sale of Utilities | 5,000 | 4,000 | 3,177 | (823) | 3,849 | (672) |
| Passenger Facility Charge | 33,000 | 33,000 | 31,176 | (1,824) | 31,169 | 7 |
| Overseas Terminal Facility Charges | - | - | 8 | 8 | 5 | 3 |
| International Terminal Charge | 35,000 | 36,625 | 34,171 | (2,454) | 28,762 | 5,409 |
| Other | 22,045 | 16,045 | 4,806 | (11,239) | 13,081 | (8,275) |
| Total Locally Generated Non-Tax Revenue | 428,816 | 410,956 | 391,660 | (19,296) | 360,907 | 30,753 |
| **Revenue from Other Governments** | | | | | | |
| State | 250 | 250 | - | (250) | 74 | (74) |
| Federal | 4,250 | 4,250 | 2,137 | (2,113) | 1,571 | 566 |
| Total Revenue from Other Governments | 4,500 | 4,500 | 2,137 | (2,363) | 1,645 | 492 |
| **Revenue from Other Funds** | 2,500 | 2,500 | 1,158 | (1,342) | 6,199 | (5,041) |
| Total Revenue | 435,816 | 417,956 | 394,955 | (23,001) | 368,751 | 26,204 |
| ***Obligations*** | | | | | | |
| Mayor's Office of Information Services | 9,620 | 9,620 | 6,750 | 2,870 | 7,121 | (371) |
| Managing Director | - | - | - | - | - | - |
| Police | 15,783 | 15,783 | 15,375 | 408 | 15,208 | 167 |
| Fire | 6,726 | 6,726 | 5,989 | 737 | 6,808 | (819) |
| Public Property | 26,900 | 26,900 | 22,950 | 3,950 | 23,801 | (851) |
| Office of Fleet Management | 8,245 | 8,245 | 4,062 | 4,183 | 4,412 | (350) |
| Director of Finance | - | - | - | - | - | - |
| City-Wide Appropriation Under the Director of Finance: | | | | | | |
| Pension Contributions | 31,300 | 33,535 | 33,515 | 20 | 29,813 | 3,702 |
| Other Employee Benefits | 25,894 | 23,659 | 19,476 | 4,183 | 21,738 | (2,262) |
| Purchase of Services | 4,146 | 4,146 | 2,447 | 1,699 | 2,511 | (64) |
| Contributions, Indemnities and Taxes | 2,512 | 1,195 | - | 1,195 | - | - |
| Advances, Subsidies, Miscellaneous | - | - | - | - | - | - |
| Sinking Fund Commission | 123,505 | 123,505 | 117,272 | 6,233 | 128,048 | (10,776) |
| Procurement | - | - | - | - | - | - |
| Commerce | 183,446 | 184,763 | 133,597 | 51,166 | 129,529 | 4,068 |
| Law | 2,021 | 2,021 | 1,455 | 566 | 1,758 | (303) |
| Mayor's Office of Transportation | 191 | 191 | 111 | 80 | 196 | (85) |
| Mayor's Office of Sustainability | 94 | 94 | 94 | - | - | 94 |
| Total Obligations | 440,383 | 440,383 | 363,093 | 77,290 | 370,943 | (7,850) |
| **Operating Surplus (Deficit) for the Year** | (4,567) | (22,427) | 31,862 | 54,289 | (2,192) | 34,054 |


SEAL OF THE CITY OF PHILADELPHIA
PHILADELPHIA MANETO

City of Philadelphia
PENNSYLVANIA

# 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.*



## Revenue Capacity

*These tables contain information to help the reader assess the City's most significant local revenue source, the wage and earnings tax. Property tax information is also presented.*



## Debt Capacity

*These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt.*



## Demographic & Economic Information

*These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.*



## Operating Information

*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.*

**City of Philadelphia** **Table 1**
**Net Position by Component**
**For the Fiscal Years 2006 Through 2016**

*Amounts in millions of USD*

*(full accrual basis of accounting)*

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities** | | | | | | | | | | |
| Net Investment in Capital Assets | 161.4 | 206.4 | (5.8) | (59.3) | (47.5) | 83.9 | 232.5 | 176.8 | 1,040.8 | 955.2 |
| Restricted | 689.7 | 641.0 | 833.8 | 705.1 | 789.5 | 621.8 | 586.8 | 630.3 | 576.5 | 625.1 |
| Unrestricted | (1,220.5) | (1,567.1) | (2,120.6) | (2,421.9) | (2,495.5) | (2,478.2) | (2,588.9) | (2,771.8) | (7,880.6) | (7,904.4) |
| Total Governmental Activities Net Positic | (369.4) | (719.7) | (1,292.6) | (1,776.1) | (1,753.5) | (1,772.5) | (1,769.6) | (1,964.7) | (6,263.3) | (6,324.1) |
| **Business-Type Activities** | | | | | | | | | | |
| Net Investment in Capital Assets | 544.0 | 591.8 | 750.6 | 831.8 | 845.1 | 887.8 | 982.5 | 1,007.4 | 1,088.1 | 1,323.7 |
| Restricted | 635.1 | 644.1 | 511.2 | 489.3 | 550.6 | 591.8 | 628.9 | 685.5 | 766.0 | 650.5 |
| Unrestricted | 257.3 | 266.2 | 269.8 | 257.3 | 234.3 | 257.9 | 173.4 | 200.7 | (278.5) | (279.3) |
| Total Business-Type Activities Net Positi | 1,436.4 | 1,502.1 | 1,531.6 | 1,578.4 | 1,630.0 | 1,737.5 | 1,784.8 | 1,893.6 | 1,575.6 | 1,694.9 |
| **Primary Government** | | | | | | | | | | |
| Net Investment in Capital Assets | 705.4 | 798.2 | 744.8 | 772.5 | 797.6 | 971.7 | 1,215.0 | 1,184.2 | 2,128.9 | 2,278.9 |
| Restricted | 1,324.8 | 1,285.1 | 1,345.0 | 1,194.4 | 1,340.1 | 1,213.6 | 1,215.7 | 1,315.8 | 1,342.5 | 1,275.6 |
| Unrestricted | (963.2) | (1,300.9) | (1,850.8) | (2,164.6) | (2,261.2) | (2,220.3) | (2,415.5) | (2,571.1) | (8,159.1) | (8,183.7) |
| Total Primary Government Net Position | 1,067.0 | 782.4 | 239.0 | (197.7) | (123.5) | (35.0) | 15.2 | (71.1) | (4,687.7) | (4,629.2) |

**City of Philadelphia**
**Changes in Net Positions**
**For the Fiscal Years 2007 Through 2016**

**Table 2**
***Amounts in millions of USD***

*(full accrual basis of accounting)*

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Expenses | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Economic Development | 92.6 | 116.4 | 116.0 | 145.0 | 92.2 | 96.5 | 94.2 | 95.1 | 97.4 | 115.3 |
| Transportation: | | | | | | | | | | |
| Streets & Highways | 116.6 | 117.7 | 119.1 | 129.4 | 136.3 | 115.6 | 112.9 | 143.9 | 122.4 | 136.8 |
| Mass Transit | 85.1 | 88.3 | 90.5 | 82.7 | 75.2 | 74.0 | 71.0 | 72.1 | 76.2 | 76.1 |
| Judiciary and Law Enforcement: | | | | | | | | | | |
| Police | 921.4 | 1,002.9 | 985.6 | 990.5 | 1,048.1 | 1,094.2 | 1,087.9 | 1,262.7 | 1,098.7 | 1,232.4 |
| Prisons | 293.2 | 311.4 | 339.1 | 343.8 | 340.4 | 336.7 | 342.2 | 371.2 | 353.0 | 381.6 |
| Courts | 304.1 | 321.6 | 318.7 | 312.0 | 315.0 | 326.2 | 318.1 | 338.5 | 323.4 | 339.6 |
| Conservation of Health: | | | | | | | | | | |
| Emergency Medical Services | 36.0 | 37.2 | 36.9 | 47.8 | 53.3 | 48.4 | 49.7 | 69.3 | 66.4 | 66.3 |
| Health Services | 1,442.6 | 1,572.6 | 1,701.5 | 1,446.7 | 1,524.6 | 1,500.1 | 1,464.9 | 1,519.1 | 1,420.5 | 1,579.1 |
| Housing and Neighborhood Development | 111.2 | 142.1 | 149.1 | 131.3 | 126.1 | 137.7 | 102.9 | 80.3 | 80.9 | 80.1 |
| Cultural and Recreational | | | | | | | | | | |
| Recreation | 73.4 | 86.2 | 77.3 | 77.0 | 98.7 | 97.3 | 102.3 | 113.1 | 113.1 | 116.6 |
| Parks | 32.6 | 36.6 | 37.7 | 37.9 | 14.0 | 9.0 | 8.6 | 8.2 | 10.6 | 8.4 |
| Libraries and Museums | 90.3 | 87.0 | 92.8 | 79.0 | 75.7 | 80.8 | 76.1 | 84.5 | 84.3 | 88.8 |
| Improvements to General Welfare: | | | | | | | | | | |
| Social Services | 765.5 | 794.1 | 756.3 | 718.8 | 718.4 | 675.5 | 625.3 | 657.5 | 687.8 | 688.7 |
| Education | 64.0 | 65.5 | 67.2 | 65.4 | 64.0 | 74.3 | 94.4 | 167.5 | 126.0 | 134.5 |
| Inspections and Demolitions | 64.3 | 47.3 | 27.8 | 23.4 | 30.1 | 26.5 | 38.0 | 43.3 | 41.7 | 65.3 |
| Service to Property: | | | | | | | | | | |
| Sanitation | 134.4 | 138.0 | 137.8 | 142.7 | 143.0 | 153.2 | 136.7 | 153.1 | 151.1 | 157.0 |
| Fire | 285.3 | 284.8 | 278.6 | 266.0 | 285.9 | 292.2 | 296.8 | 386.6 | 350.8 | 370.7 |
| General Management and Support | 568.7 | 636.9 | 684.1 | 683.3 | 561.0 | 678.4 | 743.4 | 538.0 | 605.3 | 648.1 |
| Interest on Long Term Debt | 149.5 | 95.1 | 214.6 | 174.9 | 136.3 | 112.1 | 161.8 | 159.0 | 166.2 | 158.2 |
| Total Governmental Activities Expenses | 5,630.8 | 5,981.7 | 6,230.7 | 5,897.6 | 5,838.3 | 5,928.7 | 5,927.2 | 6,263.0 | 5,975.8 | 6,443.6 |
| | | | | | | | | | | |
| Business-Type Activities: | | | | | | | | | | |
| Water and Sewer | 476.2 | 504.3 | 530.8 | 502.5 | 520.2 | 490.8 | 513.4 | 543.5 | 550.2 | 569.0 |
| Aviation | 314.3 | 323.1 | 326.2 | 330.1 | 336.0 | 343.1 | 358.9 | 376.5 | 374.3 | 400.2 |
| Industrial and Commercial Development | 3.7 | 2.1 | 3.0 | 0.1 | 1.9 | - | 0.6 | - | - | - |
| Total Business-Type Activities Expenses | 794.2 | 829.5 | 860.0 | 832.7 | 858.1 | 833.9 | 872.9 | 920.0 | 924.5 | 969.2 |
| Total Primary Government Expenses | 6,425.0 | 6,811.2 | 7,090.7 | 6,730.3 | 6,696.4 | 6,762.6 | 6,800.1 | 7,183.0 | 6,900.3 | 7,412.8 |
| | | | | | | | | | | |
| Program Revenues | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| **Charges for Services:** | | | | | | | | | | |
| Economic Development | - | - | 0.3 | 0.1 | - | 1.1 | 2.6 | 0.1 | 0.1 | 0.1 |
| Transportation: | | | | | | | | | | |
| Streets & Highways | 3.5 | 3.9 | 2.8 | 4.4 | 5.1 | 5.2 | 5.3 | 5.2 | 7.3 | 5.8 |
| Mass Transit | 0.6 | 0.5 | 0.4 | 0.5 | 0.6 | 1.3 | 1.9 | 1.9 | 2.1 | 2.2 |
| Judiciary and Law Enforcement: | | | | | | | | | | |
| Police | 1.7 | 4.3 | 5.0 | 3.3 | 3.5 | 5.5 | 6.3 | 4.5 | 5.2 | 5.1 |
| Prisons | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 | 0.9 | 0.7 | 0.4 | 0.4 | 0.3 |
| Courts | 51.5 | 52.7 | 51.8 | 53.4 | 45.6 | 60.6 | 59.9 | 50.3 | 51.6 | 50.3 |
| Conservation of Health: | | | | | | | | | | |
| Emergency Medical Services | 27.7 | 27.6 | 37.5 | 36.8 | 34.7 | 27.5 | 33.3 | 36.3 | 36.2 | 45.7 |
| Health Services | 12.6 | 15.3 | 14.4 | 16.2 | 16.7 | 14.8 | 16.7 | 18.9 | 14.4 | 14.1 |
| Housing and Neighborhood Development | 45.2 | 25.2 | 31.3 | 20.8 | 23.1 | 28.6 | 23.5 | 16.7 | 20.1 | 18.1 |
| Cultural and Recreational: | | | | | | | | | | |
| Recreation | 0.2 | 0.3 | 3.2 | (0.1) | 2.8 | 2.2 | 3.8 | 2.8 | 3.7 | 4.6 |
| Parks | 0.5 | 1.5 | 0.6 | 0.9 | 5.0 | 4.8 | 3.3 | 2.2 | 1.1 | 1.0 |
| Libraries and Museums | 0.9 | 0.8 | 1.3 | 0.9 | 1.8 | 1.2 | 1.0 | 2.0 | 1.1 | 1.2 |

**City of Philadelphia**
**Changes in Net Positions**
**For the Fiscal Years 2007 Through 2016**

**Table 2**
***Amounts in millions of USD***

*(full accrual basis of accounting)*

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Improvements to General Welfare: | | | | | | | | | | |
| Social Services | 7.3 | 6.4 | 7.6 | 14.4 | 6.8 | 5.2 | 8.3 | 5.6 | 4.4 | 1.2 |
| Education | - | - | 1.1 | - | - | - | 0.1 | - | - | - |
| Inspections and Demolitions | 44.4 | 44.9 | 40.3 | 43.9 | 45.5 | 50.0 | 53.9 | 50.1 | 52.4 | 54.1 |
| Service to Property: | | | | | | | | | | |
| Sanitation | - | 3.1 | 2.9 | 2.0 | 11.6 | 15.9 | 16.2 | 35.5 | 24.9 | 16.5 |
| Fire | 0.7 | 0.2 | 0.7 | 0.3 | 0.5 | 0.3 | 0.9 | 0.3 | 2.9 | 0.3 |
| General Management and Support | 107.5 | 110.6 | 131.9 | 127.9 | 136.6 | 139.7 | 134.2 | 177.7 | 150.2 | 158.3 |
| Interest on Long Term Debt | - | - | - | - | 9.2 | 0.3 | - | 0.2 | 0.2 | 0.2 |
| Operating Grants and Contributions | 2,204.9 | 2,339.9 | 2,438.1 | 2,050.4 | 2,223.5 | 2,102.1 | 1,986.4 | 1,967.3 | 2,011.2 | 2,090.9 |
| Capital Grants and Contributions | 15.8 | 10.0 | 35.0 | 46.9 | 32.1 | 43.2 | 48.9 | 35.3 | 60.1 | 61.8 |
| Total Governmental Activities Program Revenues | 2,525.3 | 2,647.5 | 2,806.6 | 2,423.5 | 2,605.2 | 2,510.4 | 2,407.2 | 2,413.3 | 2,449.6 | 2,531.8 |
| | | | | | | | | | | |
| Business-Type Activities: | | | | | | | | | | |
| **Charges for Services:** | | | | | | | | | | |
| Water and Sewer | 493.6 | 503.3 | 499.7 | 552.4 | 558.5 | 598.3 | 608.7 | 638.6 | 675.9 | 670.0 |
| Aviation | 309.2 | 303.2 | 251.7 | 240.0 | 258.1 | 263.2 | 291.4 | 315.4 | 322.4 | 433.7 |
| Industrial and Commercial Development | 1.5 | 1.5 | 0.5 | 0.3 | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |
| Operating Grants and Contributions | 2.8 | 5.4 | 2.6 | 6.1 | 4.8 | 3.5 | 2.3 | 1.4 | 0.9 | 0.9 |
| Capital Grants and Contributions | 22.4 | 36.6 | 109.4 | 90.5 | 105.9 | 91.6 | 58.2 | 93.6 | 161.3 | 26.8 |
| Total Business-Type Activities Program Revenues | 829.5 | 850.0 | 863.9 | 889.3 | 927.8 | 957.0 | 961.0 | 1,049.4 | 1,161.0 | 1,131.9 |
| Total Primary Government Revenues | 3,354.8 | 3,497.5 | 3,670.5 | 3,312.8 | 3,533.0 | 3,467.4 | 3,368.2 | 3,462.7 | 3,610.6 | 3,663.7 |
| | | | | | | | | | | |
| Net (Expense)/Revenue | | | | | | | | | | |
| Governmental Activities | (3,105.5) | (3,334.2) | (3,424.1) | (3,474.1) | (3,233.1) | (3,418.3) | (3,520.0) | (3,849.7) | (3,526.2) | (3,911.8) |
| Business-Type Activities | 35.3 | 20.5 | 3.9 | 56.6 | 69.7 | 123.1 | 88.1 | 129.4 | 236.5 | 162.7 |
| Total Primary Government Net Expense | (3,070.2) | (3,313.7) | (3,420.2) | (3,417.5) | (3,163.4) | (3,295.2) | (3,431.9) | (3,720.3) | (3,289.7) | (3,749.1) |
| | | | | | | | | | | |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property Taxes | 399.2 | 401.3 | 409.2 | 400.8 | 506.6 | 500.8 | 553.8 | 530.2 | 551.3 | 550.2 |
| Wage & Earnings Taxes | 1,498.5 | 1,524.5 | 1,465.5 | 1,448.5 | 1,504.6 | 1,551.7 | 1,598.7 | 1,639.8 | 1,737.2 | 1,816.8 |
| Business Taxes | 453.7 | 414.5 | 407.6 | 385.2 | 364.2 | 399.2 | 452.4 | 469.2 | 453.4 | 505.6 |
| Other Taxes | 460.3 | 457.0 | 435.0 | 578.3 | 645.8 | 663.6 | 706.0 | 735.8 | 666.7 | 733.5 |
| Unrestricted Grants & Contributions | 104.1 | 104.7 | 107.8 | 171.4 | 173.8 | 223.2 | 187.4 | 229.5 | 185.1 | 185.4 |
| Interest & Investment Earnings | 81.8 | 65.3 | 46.1 | 25.5 | 35.8 | 33.3 | 17.9 | 21.7 | 24.1 | 28.0 |
| Special Items | - | - | - | - | - | - | - | - | - | - |
| Transfers | 4.9 | 4.9 | 4.2 | 28.3 | 24.9 | 27.5 | 21.4 | 28.3 | 30.2 | 31.6 |
| Total Governmental Activities | 3,002.5 | 2,972.2 | 2,875.4 | 3,038.0 | 3,255.7 | 3,399.3 | 3,537.6 | 3,654.5 | 3,648.0 | 3,851.1 |
| | | | | | | | | | | |
| Business-Type Activities: | | | | | | | | | | |
| Interest & Investment Earnings | 45.7 | 48.7 | 22.9 | 7.7 | 6.9 | 9.0 | 12.7 | 5.3 | 4.1 | 8.3 |
| Unrestricted Grants & Contributions | - | - | - | - | - | 2.9 | 42.2 | 2.5 | 1.9 | 1.9 |
| Transfers | (4.9) | (4.9) | (4.2) | (28.3) | (24.9) | (27.5) | (21.4) | (28.3) | (30.3) | (31.6) |
| Total Business-Type Activities | 40.8 | 43.8 | 18.7 | (20.6) | (18.0) | (15.6) | 33.5 | (20.5) | (24.3) | (21.4) |
| Total Primary Government | 3,043.3 | 3,016.0 | 2,894.1 | 3,017.4 | 3,237.7 | 3,383.7 | 3,571.1 | 3,634.0 | 3,623.7 | 3,829.7 |
| | | | | | | | | | | |
| Change in Net Position | | | | | | | | | | |
| Governmental Activities | (103.0) | (362.0) | (548.7) | (436.1) | 22.6 | (19.0) | 17.6 | (195.2) | 121.8 | (60.7) |
| Business-Type Activities | 76.1 | 64.3 | 22.6 | 36.0 | 51.7 | 107.5 | 121.6 | 108.9 | 212.2 | 141.3 |
| Total Primary Government | (26.9) | (297.7) | (526.1) | (400.1) | 74.3 | 88.5 | 139.2 | (86.3) | 334.0 | 80.6 |

**City of Philadelphia** **Table 3**
**Fund Balances**
**Governmental Funds**
**For the Fiscal Years 2007 Through 2016**

*Amounts in millions of USD*

*(modified accrual basis of accounting)*

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **General Fund** | | | | | | | | | | |
| Non-spendable: | - | - | - | - | - | - | - | - | - | - |
| Restricted for: | | | | | | | | | | |
| Central Library Project | 4.8 | 4.9 | 4.7 | 2.3 | 2.3 | 2.3 | 2.3 | 2.0 | 2.0 | 1.7 |
| Stadium Financing | 6.4 | 0.1 | 1.7 | 0.6 | 0.3 | 0.5 | 2.1 | 3.8 | 4.3 | 0.6 |
| Cultural & Commercial Corridor Project | 143.3 | 122.5 | 89.8 | 30.8 | 19.2 | 15.3 | 12.2 | 11.6 | 10.6 | 7.4 |
| Long Term Loan | 45.0 | 22.5 | - | - | - | - | 79.7 | 68.2 | 56.7 | 44.8 |
| Committed to: | | | | | | | | | | |
| Encumbrances | 135.6 | 108.8 | 102.8 | - | - | - | - | - | - | - |
| General Fund | - | - | - | 87.9 | - | - | - | - | - | - |
| Assigned to: | - | - | - | - | - | 70.5 | 98.0 | 103.1 | 81.9 | 78.0 |
| Unassigned: | 152.7 | (24.3) | (274.6) | (251.8) | (45.7) | - | 90.0 | 23.0 | - | - |
| Total General Fund: | 487.8 | 234.4 | (75.6) | (130.2) | (23.9) | 88.6 | 284.4 | 211.7 | 155.5 | 132.5 |
| **All Other Governmental Funds** | | | | | | | | | | |
| Non-spendable: | | | | | | | | | | |
| Permanent Fund (Principal) | - | - | - | - | 2.6 | 2.6 | 2.8 | 3.2 | 3.5 | 3.1 |
| Restricted for: | | | | | | | | | | |
| Behavioral Health | 192.9 | 177.8 | 188.7 | 171.0 | 250.1 | 230.7 | 233.7 | 188.6 | 199.6 | 220.1 |
| Neighborhood Revitalization | 99.9 | 77.8 | 74.6 | 73.1 | 61.3 | 51.6 | 34.2 | 30.6 | 29.6 | 0.0 |
| Public Safety Emergency Phone System | 21.7 | 28.7 | 38.8 | 40.4 | 36.9 | 29.6 | 24.5 | 27.5 | 35.2 | 40.8 |
| Economic Development | - | - | - | - | 6.6 | 10.3 | 7.2 | 6.8 | 11.8 | 12.3 |
| Intergovernmental Financing | 24.5 | 18.6 | 12.1 | 7.9 | 21.1 | 21.7 | 33.9 | 34.0 | 28.3 | 25.5 |
| Intergovernmentally Financed Pgms | | | | | 24.5 | 18.9 | - | - | - | - |
| Streets & Highways | 7.5 | 12.8 | 16.8 | 16.8 | 18.3 | 23.2 | 23.9 | 26.2 | 31.9 | 37.1 |
| Housing & Neighborhood Development | - | - | - | - | 10.5 | 10.5 | 15.0 | 16.6 | 18.5 | 20.8 |
| Health Services | - | - | 4.0 | 10.8 | 8.8 | 9.5 | 15.2 | 10.1 | 11.0 | 11.2 |
| Debt Service | 92.3 | 80.9 | 79.1 | 76.6 | 82.8 | 82.4 | 81.5 | 83.1 | 81.5 | 81.6 |
| Capital Improvements | 103.0 | 21.0 | 196.1 | 152.2 | 267.7 | 128.5 | 29.2 | 191.6 | 70.2 | 133.1 |
| Trust Purposes | 8.9 | 8.3 | 6.4 | 4.7 | 8.1 | 8.3 | 8.9 | 11.8 | 12.3 | 10.2 |
| Parks & Recreation | - | - | - | - | 0.3 | 0.4 | 0.4 | 0.4 | 0.6 | 0.8 |
| Libraries & Museums | - | - | - | - | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 3.0 |
| Stadium Financing | - | - | - | - | 6.3 | 6.4 | 6.8 | 7.3 | 6.7 | 6.4 |
| Committed to: | | | | | | | | | | |
| Capital Improvements | 56.7 | 61.7 | 62.5 | 37.9 | - | - | - | - | - | - |
| Economic Development | - | - | - | 6.5 | - | - | - | - | - | - |
| Housing & Neighborhood Development | 15.9 | 17.4 | 18.6 | 15.2 | - | - | - | - | - | - |
| Debt Service | 5.2 | 5.7 | 5.6 | 7.9 | - | - | - | - | - | - |
| Trust Purposes | 9.2 | 9.1 | 8.0 | 7.7 | - | - | - | - | - | - |
| Intergovernmental Financing | 53.3 | 52.2 | 62.6 | 36.2 | - | - | - | - | - | - |
| Social Services | - | - | - | - | - | - | - | - | - | - |
| Prisons | - | - | - | - | 3.6 | 4.2 | 4.4 | 3.5 | 3.2 | 2.9 |
| Parks & Recreation | - | - | - | - | 0.5 | 0.9 | 0.7 | 0.8 | 0.9 | 1.7 |
| Assigned to: | | | | | | | | | | |
| Behavioral Health | 28.4 | 40.5 | - | 42.5 | - | - | - | - | - | - |
| PICA Rebate Fund | 7.0 | 7.4 | 8.0 | 7.5 | - | - | - | - | - | - |
| PMA | 0.2 | 0.2 | 0.2 | 0.2 | - | - | - | - | - | - |
| Unassigned: | | | | | | | | | | |
| Community Behavioral Health | - | - | (5.4) | - | - | - | - | - | - | - |
| Housing & Neighborhood Dev | (3.9) | (3.2) | (5.0) | (4.0) | (4.0) | (6.5) | (7.2) | (7.9) | (7.1) | (5.3) |
| Parks & Recreation | - | - | - | - | - | - | - | - | (0.1) | - |
| Grants Revenue Fund | (26.2) | (23.0) | (36.7) | (39.0) | (34.3) | (175.1) | (217.1) | (273.3) | (213.0) | (322.5) |
| Capital Improvement | - | - | - | - | - | - | - | - | - | - |
| Total All Other Governmental Funds | 696.3 | 594.2 | 734.9 | 672.1 | 771.7 | 458.1 | 298.1 | 360.7 | 324.7 | 282.7 |

[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** **Table 4**
**Changes in Fund Balances**
**Governmental Funds**
**For the Fiscal Years 2007 Through 2016**

*Amounts in millions of USD*

*(modified accrual basis of accounting)*

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | |
| Tax Revenue | 2,805.1 | 2,781.8 | 2,705.2 | 2,812.3 | 2,995.0 | 3,112.5 | 3,304.4 | 3,370.8 | 3,397.1 | 3,632.7 |
| Locally Generated Non-Tax Revenue | 381.7 | 349.7 | 349.3 | 302.7 | 370.6 | 336.5 | 348.6 | 387.1 | 376.6 | 367.3 |
| Revenue from Other Governments | 2,376.6 | 2,468.4 | 2,564.9 | 2,323.4 | 2,366.4 | 2,226.1 | 2,212.0 | 2,169.0 | 2,280.2 | 2,245.2 |
| Other Revenues | 17.1 | 17.9 | 49.6 | 33.1 | 25.8 | 27.5 | 27.9 | 20.2 | 16.9 | 19.6 |
| Total Revenues | 5,580.5 | 5,617.8 | 5,669.0 | 5,471.5 | 5,757.8 | 5,702.6 | 5,892.9 | 5,947.1 | 6,070.8 | 6,264.8 |
| **Expenditures** | | | | | | | | | | |
| Current Operating: | | | | | | | | | | |
| Economic Development | 85.5 | 112.3 | 107.0 | 135.1 | 82.6 | 88.9 | 85.9 | 83.7 | 82.5 | 101.1 |
| Transportation: | | | | | | | | | | |
| Streets & Highways | 89.2 | 89.7 | 89.9 | 91.1 | 87.4 | 75.6 | 81.6 | 98.1 | 96.2 | 105.1 |
| Mass Transit | 58.1 | 61.7 | 63.7 | 65.2 | 67.1 | 67.7 | 66.5 | 67.5 | 71.7 | 76.1 |
| Judiciary and Law Enforcement: | | | | | | | | | | |
| Police | 860.2 | 951.9 | 933.9 | 882.7 | 955.9 | 1,020.0 | 1,089.4 | 1,164.9 | 1,104.6 | 1,162.5 |
| Prisons | 278.1 | 298.2 | 326.9 | 315.2 | 315.9 | 318.2 | 338.7 | 346.3 | 343.9 | 365.1 |
| Courts | 292.3 | 311.1 | 310.5 | 288.1 | 294.9 | 312.3 | 309.2 | 317.9 | 321.5 | 329.9 |
| Conservation of Health: | | | | | | | | | | |
| Emergency Medical Services | 34.9 | 36.0 | 36.2 | 45.0 | 50.7 | 46.7 | 50.0 | 65.8 | 66.1 | 64.9 |
| Health Services | 1,436.8 | 1,567.6 | 1,695.0 | 1,436.5 | 1,514.8 | 1,492.7 | 1,464.6 | 1,510.3 | 1,419.8 | 1,573.1 |
| Housing and Neighborhood Development | 109.2 | 141.9 | 148.4 | 131.2 | 126.1 | 133.8 | 102.8 | 80.3 | 80.9 | 80.1 |
| Cultural and Recreational: | | | | | | | | | | |
| Recreation | 62.2 | 74.3 | 65.1 | 58.4 | 82.9 | 85.9 | 90.3 | 98.6 | 103.9 | 104.8 |
| Parks | 26.3 | 28.9 | 31.8 | 26.9 | 5.8 | 6.1 | 3.9 | 1.2 | 1.8 | 1.5 |
| Libraries and Museums | 83.2 | 84.2 | 81.0 | 68.8 | 68.7 | 71.9 | 72.0 | 74.9 | 79.1 | 81.4 |
| Improvements to General Welfare: | | | | | | | | | | |
| Social Services | 756.7 | 778.2 | 743.1 | 699.7 | 701.8 | 674.3 | 624.3 | 655.3 | 687.8 | 687.1 |
| Education | 64.0 | 65.5 | 67.2 | 65.4 | 64.0 | 74.3 | 94.4 | 167.5 | 126.0 | 134.5 |
| Inspections and Demolitions | 63.0 | 46.3 | 33.1 | 27.3 | 34.8 | 32.2 | 45.8 | 40.8 | 41.5 | 64.0 |
| Service to Property: | | | | | | | | | | |
| Sanitation | 129.5 | 132.9 | 134.6 | 130.6 | 133.9 | 146.2 | 137.2 | 144.8 | 146.9 | 152.4 |
| Fire | 267.6 | 276.4 | 266.9 | 237.6 | 258.1 | 267.8 | 295.9 | 344.2 | 346.4 | 355.0 |
| General Management and Support | 563.7 | 618.4 | 693.8 | 615.0 | 568.5 | 619.1 | 622.8 | 646.7 | 662.3 | 686.4 |
| Capital Outlay | 92.3 | 105.8 | 126.9 | 148.9 | 134.9 | 202.0 | 161.1 | 140.1 | 189.7 | 206.1 |
| Debt Service: | | | | | | | | | | |
| Principal | 91.5 | 94.1 | 87.6 | 89.7 | 91.4 | 103.2 | 114.1 | 120.3 | 339.8 | 139.5 |
| Interest | 103.4 | 100.0 | 105.7 | 96.7 | 105.6 | 105.2 | 112.2 | 118.0 | 120.7 | 107.5 |
| Bond Issuance Cost | 5.0 | 24.2 | 8.5 | 23.5 | 2.2 | 1.6 | 4.4 | 5.0 | 7.2 | 3.3 |
| Capital Lease Principal | - | - | - | - | - | - | - | - | - | - |
| Capital Lease Interest | - | - | - | - | - | - | - | - | - | - |
| Total Expenditures | 5,552.7 | 5,999.6 | 6,156.8 | 5,678.6 | 5,748.0 | 5,945.7 | 5,967.1 | 6,292.2 | 6,440.3 | 6,581.4 |
| Excess of Revenues Over (Under) Expenditures | 27.8 | (381.8) | (487.8) | (207.1) | 9.8 | (243.1) | (74.2) | (345.1) | (369.5) | (316.6) |
| **Other Financing Sources (Uses)** | | | | | | | | | | |
| Issuance of Debt | 353.1 | 1,303.8 | 262.9 | 207.0 | 139.1 | 12.6 | 299.8 | 293.8 | 30.0 | 191.6 |
| Issuance of Refunding Debt | - | - | 354.9 | 337.0 | 114.6 | 112.6 | 231.2 | 363.6 | 195.7 | 234.2 |
| Bond Issuance Premium | 13.8 | 31.1 | 26.7 | 24.3 | 5.0 | 16.6 | 0.8 | 31.4 | 21.3 | 53.9 |
| Proceeds from Lease & Service Agreements | - | - | (3.1) | (1.0) | 28.1 | - | (252.7) | - | - | - |
| Payment to Refunded Bonds Escrow Agent | - | (1,313.7) | (326.9) | (504.0) | (117.6) | (127.3) | (190.5) | (382.2) | - | (259.6) |
| Transfers In | 460.1 | 465.2 | 574.5 | 558.1 | 583.1 | 600.8 | 613.1 | 616.3 | 661.9 | 686.3 |
| Transfers Out | (455.1) | (460.2) | (570.3) | (529.7) | (558.1) | (573.3) | (591.7) | (587.9) | (631.6) | (654.7) |
| Total Other Financing Sources (Uses) | 371.9 | 26.2 | 318.7 | 91.7 | 194.2 | 42.0 | 110.0 | 335.0 | 277.3 | 251.7 |
| Net Change in Fund Balances | 399.7 | (355.6) | (169.1) | (115.4) | 204.0 | (201.1) | 35.8 | (10.1) | (92.2) | (64.9) |
| Debt Service as a Percentage of Non-capital Expenditures | 3.6% | 3.3% | 3.2% | 3.4% | 3.5% | 3.6% | 3.9% | 3.9% | 7.4% | 3.9% |

[1.0] Effective April 15, 2003, the City implemented a change to the basis on which the Business Income and Receipts 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** **Table 5**
**Comparative Schedule of Operations**
**Municipal Pension Fund**
**For the Fiscal Years 2007 through 2016**

*Amounts in millions of USD*

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Additions: | | | | | | | | | | |
| Contributions: | | | | | | | | | | |
| Employee Contributions | 49.2 | 51.7 | 54.0 | 51.6 | 52.7 | 50.0 | 49.6 | 53.7 | 58.7 | 67.1 |
| Employer's: | | | | | | | | | | |
| City of Philadelphia | 419.2 | 412.4 | 440.0 | 297.4 | 455.8 | 539.8 | 763.7 | 533.4 | 556.1 | 629.4 |
| Quasi-Governmental Agencies | 13.1 | 14.5 | 15.4 | 15.1 | 14.2 | 16.2 | 18.1 | 19.8 | 21.1 | 30.8 |
| Total Employer's Contributions | 432.3 | 426.9 | 455.4 | 312.5 | 470.1 | 556.0 | 781.8 | 553.2 | 577.2 | 660.2 |
| Total Contributions | 481.5 | 478.6 | 509.4 | 364.1 | 522.8 | 606.0 | 831.4 | 606.9 | 635.9 | 727.3 |
| Interest & Dividends | 80.3 | 97.1 | 75.6 | 70.5 | 79.5 | 86.2 | 122.9 | 102.2 | 98.4 | 101.5 |
| Net Gain (Decline) in Fair Value of Investments | 684.7 | (322.0) | (945.6) | 381.2 | 618.5 | (57.7) | 213.9 | 585.4 | (76.8) | (239.8) |
| (Less) Investment Expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (13.3) | (12.2) | (10.2) | (9.8) | (9.1) |
| Net Securities Lending Revenue | 1.1 | 7.4 | 5.7 | 1.9 | 1.5 | 2.1 | 3.0 | 4.2 | 2.2 | 1.9 |
| Securities Lending Unrealized Loss | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (1.9) | 118.0 | 0.0 | 0.0 | 0.0 |
| (Less) Securities Lending Expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.9) | (0.3) | (0.6) | (0.3) | (0.3) |
| Net Investment Income (Loss) | 766.1 | (217.5) | (864.3) | 453.6 | 699.5 | 14.5 | 445.3 | 681.0 | 13.7 | (145.8) |
| Miscellaneous Operating Revenue | 2.1 | 1.1 | 1.0 | 0.7 | 1.4 | 0.0 | 0.5 | 0.5 | 0.1 | 0.1 |
| Total Additions | 1,249.7 | 262.2 | (353.9) | 818.4 | 1,223.7 | 620.5 | 1,277.2 | 1,288.4 | 649.7 | 581.6 |
| Deductions: | | | | | | | | | | |
| Pension Benefits | 655.8 | 725.7 | 681.1 | 680.1 | 681.9 | 706.2 | 740.7 | 802.6 | 876.4 | 882.0 |
| Refunds to Members | 4.5 | 4.2 | 4.8 | 4.5 | 5.1 | 6.5 | 5.7 | 6.0 | 5.3 | 7.4 |
| Administrative Costs | 6.7 | 7.6 | 8.4 | 8.1 | 8.0 | 0.0 | 8.2 | 8.3 | 10.4 | 8.4 |
| Other Operating Expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 15.2 | 0.2 | 0.0 | 0.1 | 0.1 |
| Total Deductions | 667.0 | 737.5 | 694.3 | 692.7 | 695.0 | 727.9 | 754.8 | 816.9 | 892.1 | 897.9 |
| Net Increase (Decrease) | 582.7 | (475.3) | (1,048.2) | 125.7 | 528.7 | (107.4) | 522.4 | 471.5 | (242.4) | (316.3) |
| Net Assets: Adjusted Opening | 4,316.6 | 4,899.3 | 4,424.0 | 3,375.9 | 3,501.6 | 4,030.2 | 3,922.8 | 4,445.2 | 4,916.7 | 4,674.3 |
| Closing | 4,899.3 | 4,424.0 | 3,375.9 | 3,501.6 | 4,030.2 | 3,922.8 | 4,445.2 | 4,916.7 | 4,674.3 | 4,358.0 |
| Ratios: | | | | | | | | | | |
| Pension Benefits Paid as a Percent of: | | | | | | | | | | |
| Net Members Contributions | 1467.11% | 1527.79% | 1383.30% | 1443.95% | 1432.56% | 1623.45% | 1687.24% | 1682.60% | 1640.28% | 1477.39% |
| Closing Net Assets | 13.39% | 16.40% | 20.18% | 19.42% | 16.92% | 18.00% | 16.66% | 16.32% | 18.75% | 20.24% |
| Coverage of Additions over Deductions | 187.36% | 35.55% | -50.97% | 118.15% | 176.07% | 85.25% | 169.21% | 157.72% | 72.83% | 64.77% |
| Investment Earnings as % of Pension Benefits | 116.82% | -29.97% | -126.90% | 66.70% | 102.58% | 2.05% | 60.12% | 84.85% | 1.56% | -16.53% |

## City of Philadelphia

**Table 6**

### Wage and Earnings Tax Taxable Income
### For the Calendar Years 2006 Through 2015

*Amounts in millions of USD*

| | City Residents | | | Non-City Residents | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Taxable Income | % of Total | Direct Rate [1] | Taxable Income | % of Total | Direct Rate [1] | Total Taxable Income | Total Direct Rate |
| 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 | 23,461.6 | 57.26% | 3.92800% | 17,513.6 | 42.74% | 3.49850% | 40,975.2 | 3.74442% |
| 2013 | 24,346.9 | 57.57% | 3.92600% | 17,944.9 | 42.43% | 3.49675% | 42,291.8 | 3.74386% |
| 2014 | 25,599.6 | 57.70% | 3.92200% | 18,770.1 | 42.30% | 3.49325% | 44,369.7 | 3.74062% |
| 2015 | 26,851.8 [2] | 58.05% | 3.91510% | 19,405.6 [2] | 41.95% | 3.48715% | 46,257.4 | 3.73557% |

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] From 2008 to 2010, the rate changed on January 1st & July 1st. Also, in 2013 to 2015, the rate changed on July 1st. The direct rate is an average of the two rates involved during that calendar year.

[2] The amounts for Year 2015 are preliminary.

## City of Philadelphia

**Table 7**

### Direct and Overlapping Tax Rates

### For the Ten Fiscal Years 2007 through 2016

| Tax Classification | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Wage and Earnings Tax:** | | | | | | | | | | |
| [a] City Residents | 4.2600% [b] | 4.2190% [b] | 3.9300% [b] | 3.9296% [b] | 3.9280% [b] | 3.9280% [b] | 3.9280% [b] | 3.9240% | 3.9200% | 3.9102% |
| Non-City Residents | 3.7557% [b] | 3.7242% [b] | 3.5000% [b] | 3.4997% [b] | 3.4985% [b] | 3.4985% [b] | 3.4985% [b] | 3.4950% | 3.4915% | 3.4828% |
| | 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% | 3.305% | 3.305% | 3.305% | 4.123% | 4.123% | 4.462% | 0.602% | 0.602% | 0.632% |
| School District of Philadelphia | 4.790% | 4.959% | 4.959% | 4.959% | 4.959% | 5.309% | 5.309% | 0.738% | 0.738% | 0.768% |
| Total Real Property Tax | 8.264% | 8.264% | 8.264% | 8.264% | 9.082% | 9.432% | 9.771% | 1.340% | 1.340% | 1.400% |
| [e] Assessment Ratio | 29.22% | 28.86% | 28.46% | 26.73% | 28.05% | 28.87% | 28.68% | 224.40% | 213.95% | NA |
| Effective Tax Rate (Real Property Rate x Assessment Ratio) | 2.415% | 2.385% | 2.352% | 2.209% | 2.548% | 2.723% | 2.802% | 3.007% | 2.867% | NA |
| | 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. | | | | | | | | | |
| [c] **Business Income and Receipts Taxes** | | | | | | | | | | |
| (% on Gross Receipts) | 0.1665% | 0.1540% | 0.1415% | 0.1415% | 0.1415% | 0.1415% | 0.1415% | 0.1415% | 0.1415% | 0.1415% |
| [f] (% on Net Income) | 6.5000% | 6.5000% | 6.4500% | 6.4500% | 6.4500% | 6.4500% | 6.4500% | 6.4300% | 6.4100% | 6.3900% |
| | 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 | 4.2600% | 3.9800% | 3.9296% | 3.9280% | 3.9280% | 3.9280% | 3.9240% | 3.9200% | 3.9102% | 3.9004% |
| Non-City Residents | 3.7557% | 3.5392% | 3.4997% | 3.4985% | 3.4985% | 3.4985% | 3.4950% | 3.4915% | 3.4828% | 3.4741% |
| | 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 2007 through 2016**

| Tax Classification | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales Tax** | | | | | | | | | | |
| City | 1.0% | 1.0% | 1.0% | 2.0% | 2.0% | 2.0% | 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% | 8.0% | 8.0% | 8.0% | 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% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 22.5% |
| | 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% | 7.2% | 8.2% | 8.2% | 8.2% | 8.5% | 8.5% | 8.5% |
| **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% | 8.2% | 9.2% | 9.2% | 9.2% | 9.5% | 9.5% | 9.5% |
| | 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 buildin 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*

| Remittance Range | 2015 # of Remitters (Employers) | 2015 Total Amount Remitted | 2015 Percentage of Total Remitted | 2006 # of Remitters (Employers) | 2006 Total Amount Remitted | 2006 Percentage of Total Remitted |
|---|---|---|---|---|---|---|
| Greater then $10 million | 16 | $435.1 | 25.18% | 14 | $329.8 | 23.16% |
| Between $1 million & $10 million | 169 | 430.6 | 24.92% | 153 | 366.8 | 25.76% |
| Between $100,000 & $1 million | 1,824 | 478.3 | 27.68% | 1,508 | 387.9 | 27.24% |
| Between $10,000 & $100,000 | 9,724 | 287.0 | 16.61% | 8,620 | 254.9 | 17.90% |
| Less then $10,000 | 41,573 | 97.0 | 5.61% | 36,904 | 84.4 | 5.94% |
| Total | 53,306 | $1,728.0 | 100.00% | 47,199 | $1,423.8 | 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 2007 through 2016

*Amounts in millions of USD*

| Calendar Year of Levy [1] | Assessed Value on Certification Date [3] | Less: Tax-Exempt Property [2, 3] | Less: Homestead Exemption [7] | Total Taxable Assessed Value [2, 3] | Less: Adjustments between Certification Date and Billing Date [3] | Total Taxable Assessed Value on Billing Date | Total Direct Tax Rate [4] | STEB Ratio [5] | Estimated Actual Taxable Value (STEB) | Sales Ratio [6] | Estimated Actual Taxable Value (Sales) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | 16,243 | 4,628 | | 11,615 | | 11,615 | 3.474% | 29.22% | 39,750 | 17.42% | 66,676 |
| 2008 | 16,974 | 4,799 | | 12,175 | | 12,175 | 3.305% | 28.86% | 42,186 | 17.94% | 67,865 |
| 2009 | 17,352 | 5,146 | | 12,206 | | 12,206 | 3.305% | 28.46% | 42,888 | 16.44% | 74,246 |
| 2010 | 17,615 | 5,339 | | 12,276 | | 12,276 | 3.305% | 26.73% | 45,926 | 24.64% | 49,821 |
| 2011 | 17,940 | 5,593 | | 12,347 | | 12,347 | 4.123% | 28.05% | 44,018 | 13.35% | 92,487 |
| 2012 | 18,022 | 5,685 | | 12,337 | | 12,337 | 4.123% | 28.87% | 42,733 | 13.13% | 93,960 |
| 2013 | 18,181 | 5,765 | | 12,416 | | 12,416 | 4.462% | 28.68% | 43,291 | 11.88% | 104,512 |
| 2014 | 137,404 | 37,462 | 5,429 | 94,513 | 2,590 | 91,923 | 0.602% | 224.40% | 42,118 | NA | NA |
| 2015 | 136,341 | 37,223 | 6,411 | 92,707 | 1,777 | 90,930 | 0.602% | 213.95% | 43,331 | NA | NA |
| 2016 | 136,295 | 38,386 | 6,372 | 91,537 | 1,369 | 90,168 | 0.632% | NA | NA | NA | NA |

[1] Real property tax bills are normally sent out in December 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: Office of Property Assessment. Beginning in 2014:

a) the Assessed Value Certification Date was moved up to 3/31/2013; in prior years, the Certification Date occurred on or slightly before the Billing Date (in November)

b) the City re-evaluated all real property at its current market value, based upon the Actual Value Initiative (AVI).

[4] Total Direct Tax Rate is City portion only and excludes the School District portion (see statistical table #7 for breakdown).

[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 Office of Property Assessment based on sales of property during the year.

[7] Starting in 2014, the City provided for a $30,000 Homestead Exemption (amount subject to change) to all homeowners.

**Current Year and Nine Years Ago** *Amounts in millions of USD*

| Taxpayer | 2016 Assessment [1] | 2016 Rank | 2016 Percentage of Total Assessments | 2007 Assessment [1] | 2007 Rank | 2007 Percentage of Total Assessments |
|---|---|---|---|---|---|---|
| HUB Properties Trust | 265.7 | 1 | 0.29 | 48.0 | 4 | 0.41 |
| Nine Penn Center Associates | 232.6 | 2 | 0.25 | 54.1 | 2 | 0.47 |
| Phila Liberty Pla E Lp | 207.7 | 3 | 0.23 | 54.4 | 1 | 0.47 |
| Philadelphia Market Street | 203.7 | 4 | 0.22 | 28.8 | 10 | 0.25 |
| Tenet Healthsystem Hahnem | 192.1 | 5 | 0.21 | - | - | - |
| Commerce Square Partners | 178.2 | 6 | 0.19 | 33.3 | 7 | 0.29 |
| Maguire/Thomas Partners | 170.1 | 7 | 0.19 | 33.9 | 6 | 0.30 |
| NNN 1818 Market St. 37 | 170.0 | 8 | 0.19 | - | - | - |
| Franklin Mills Associates | 163.2 | 9 | 0.18 | 48.4 | 3 | 0.42 |
| Brandywine Cira LP | 160.7 | 10 | 0.18 | - | - | - |
| Bell Atlantic Properties | - | - | - | 43.3 | 5 | 0.37 |
| PRU 1901 Market LLC | - | - | - | 32.9 | 8 | 0.28 |
| Phila Shipyard Development Corp | | | | 30.3 | 9 | 0.26 |
| | 1,944.0 | | 2.12 | 407.4 | | 3.51 |
| Taxable Assessments (before Homestead) [2] | 97,909.0 | | 100.00 | 11,614.9 | | 100.00 |
| Less Homestead Exemption [2] | 6,372.5 | | | 0.0 | | |
| Total Taxable Assessments | 91,536.5 | | | 11,614.9 | | |

[1] Source: Office of Property Assessment.
a) 2016 Assessment as of March 2015.
b) 2007 Assessment as of November 2006.

[2] In calendar year 2014,
a) the City re-evaluated all real property at its current market value, based upon the Actual Value Initiative (AVI).
b) the City initiated a new $30,000 Homestead Exemption to all homeowners.

# City of Philadelphia
## Real Property Tax Levied and Collected
## For the Calendar Years 2007 through 2016
## 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 **5 | Collected in Subsequent Years **4 | Total Collected to Date: All Years | Percentage Collected to Date: All Years **5 |
|---|---|---|---|---|---|---|---|
| 2007 | 391.7 | NA | 347.5 | 88.7% | 40.4 | 387.9 | 99.0% |
| 2008 | 390.2 | NA | 346.4 | 88.8% | 39.1 | 385.5 | 98.8% |
| 2009 | 396.5 | NA | 315.4 | 79.5% | 72.6 | 388.0 | 97.9% |
| 2010 | 405.8 | NA | 353.7 | 87.2% | 36.4 | 390.1 | 96.1% |
| 2011 | 509.1 | NA | 440.9 | 86.6% | 45.0 | 485.9 | 95.4% |
| 2012 | 508.6 | 491.1 | 459.2 | 93.5% | 22.7 | 481.9 | 98.1% |
| 2013 | 554.0 | 537.7 | 505.6 | 94.0% | 22.8 | 528.4 | 98.3% |
| 2014 | 553.2 | 515.4 | 482.1 | 93.5% | 21.2 | 503.3 | 97.7% |
| 2015 | 547.4 | 519.1 | 489.1 | 94.2% | 10.9 | 500.0 | 96.3% |
| 2016 | 569.9 | 552.7 | 502.6 | 90.9% | N/A | 502.6 | 90.9% |

**1 Taxes are levied on a calendar year basis, this column represents the initial bill. 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.
For 2014, adjustment include the Longtime Owner Occupants Program (LOOP), since the program was implemented after the initial bills were sent.

**3 For 2016, "collections in the calendar year of levy" does not include the full 12 months; it only includes collections thru the end of June 2016.

**4 Includes payments from capitalized interest. This capitalization occurs only after the first year of the levy on any amount 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.

**5 For calendar years 2007 to 2011, "percentage collected in the calendar year of levy" and "percentage collected to date: all years" are based on "taxes levied for the year", since "taxes levied based on adjusted assessment" data is unavailable for these years.

**City of Philadelphia** **Table 12**

**Ratios of Outstanding Debt by Type**

**For the Fiscal Years 2007 through 2016**

*Amounts in millions of USD (except per capita)*

**Governmental Activities**

| Fiscal Year | General Obligation Bonds | Capital Leases | Pension Service Agreement | City Service Agreement | Neighborhood Transformation Initiative | One Parkway Agreement | Sports Stadia Agreement | Central Library Project | Cultural & Commercial Corridor | PAID School District | Total Governmental Activities |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $ 1,993.7 | $ - | $ 1,444.9 | $ - | $ 273.9 | $ 49.6 | $ 334.0 | $ 9.7 | $ 139.6 | $ - | $ 4,245.4 |
| 2008 | 1,899.1 | - | 1,446.6 | - | 267.8 | 47.7 | 328.8 | 9.3 | 136.6 | - | 4,135.9 |
| 2009 | 2,093.8 | - | 1,443.8 | - | 261.5 | 46.3 | 323.6 | 8.9 | 133.3 | - | 4,311.2 |
| 2010 | 2,085.1 | 31.1 | 1,428.3 | - | 254.8 | 44.9 | 319.6 | 8.5 | 129.9 | - | 4,302.2 |
| 2011 | 2,135.0 | 51.7 | 1,407.3 | - | 247.8 | 43.4 | 314.9 | 8.1 | 126.4 | - | 4,334.6 |
| 2012 | 2,041.1 | 40.6 | 1,379.3 | - | 240.3 | 41.9 | 310.0 | 7.7 | 122.8 | - | 4,183.7 |
| 2013 | 1,968.7 | 28.9 | 1,171.3 | 423.3 | 234.1 | 41.8 | 313.0 | 7.7 | 119.9 | - | 4,308.7 |
| 2014 | 2,139.7 | 16.9 | 1,121.4 | 299.8 | 225.5 | 39.6 | 300.6 | 7.2 | 116.0 | 27.3 | 4,294.0 |
| 2015 | 1,996.0 | 12.9 | 1,063.2 | 299.8 | 216.4 | 37.3 | 291.9 | 6.7 | 111.8 | 43.3 | 4,079.3 |
| 2016 | 2,073.6 | 8.8 | 997.5 | 299.8 | 205.8 | 34.9 | 277.2 | 6.7 | 108.5 | 29.1 | 4,041.9 |



**Business-Type Activities**

| Fiscal Year | General Obligation Bonds | Water Revenue Bonds | Airport Revenue Bonds | Total Business-Type Activities |
|---|---|---|---|---|
| 2007 | $ 5.8 | $ 1,674.3 | $ 1,141.0 | $ 2,821.1 |
| 2008 | 4.6 | 1,590.0 | 1,282.2 | 2,876.8 |
| 2009 | 3.4 | 1,648.7 | 1,250.4 | 2,902.5 |
| 2010 | 2.2 | 1,574.9 | 1,213.9 | 2,791.0 |
| 2011 | 1.0 | 1,738.2 | 1,450.8 | 3,190.0 |
| 2012 | - | 1,819.9 | 1,383.1 | 3,203.0 |
| 2013 | - | 1,830.4 | 1,355.4 | 3,185.8 |
| 2014 | - | 1,935.3 | 1,291.7 | 3,227.0 |
| 2015 | - | 2,110.8 | 1,225.3 | 3,336.1 |
| 2016 | - | 1,967.1 | 1,160.9 | 3,128.0 |

**Ratios**

| Fiscal Year | Total Primary Government | Percentage of Personal Income (1) | Population (1) | Per Capita |
|---|---|---|---|---|
| 2007 | $ 7,066.5 | 14.86% | 1,520,251 | $ 4,648 |
| 2008 | 7,012.7 | 13.84% | 1,530,031 | 4,583 |
| 2009 | 7,213.7 | 13.29% | 1,540,351 | 4,683 |
| 2010 | 7,093.2 | 13.12% | 1,547,297 | 4,584 |
| 2011 | 7,524.6 | 13.21% | 1,526,006 | 4,931 |
| 2012 | 7,386.7 | 11.79% | 1,538,567 | 4,801 |
| 2013 | 7,494.5 | 11.68% | 1,547,607 | 4,843 |
| 2014 | 7,521.0 | 11.49% | 1,553,165 | 4,842 |
| 2015 | 7,415.4 | 11.15% | 1,560,297 | 4,753 |
| 2016 | 7,169.9 | 9.20% | 1,567,442 | 4,574 |

(1) See Table 17 for Personal Income and Population Amounts

**City of Philadelphia** **Table 13**

**Ratios of General Bonded Debt Outstanding**

**For the Fiscal Years 2007 through 2016**

*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] |
|---|---|---|---|---|---|---|
| 2007 | 1,993.7 | 11,615.0 | 29.22% | 39,750.2 | 5.02% | 1,303.05 |
| 2008 | 1,899.1 | 12,175.2 | 28.86% | 42,187.1 | 4.50% | 1,232.90 |
| 2009 | 2,093.8 | 12,205.6 | 28.46% | 42,886.9 | 4.88% | 1,353.20 |
| 2010 | 2,085.1 | 12,276.3 | 26.73% | 45,927.0 | 4.54% | 1,366.38 |
| 2011 | 2,135.0 | 12,347.1 | 28.05% | 44,018.2 | 4.85% | 1,387.65 |
| 2012 | 2,041.1 | 12,337.0 | 28.87% | 42,732.9 | 4.78% | 1,318.87 |
| 2013 | 1,968.7 | 12,416.0 | 28.68% | 43,291.5 | 4.55% | 1,267.54 |
| 2014 | 2,139.7 | 94,513.0 | 224.40% | 42,118.1 | 5.08% | 1,371.34 |
| 2015 | 1,996.0 | 92,707.0 | 213.95% | 43,331.2 | 4.61% | 1,273.41 |
| 2016 | 2,073.6 | 91,536.5 | NA | NA | NA | NA |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statement.

[1] Source: Office of Property Assessment

[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

**Table 14**

## Direct and Overlapping Governmental Activities Debt

## June 30, 2016

***Amounts in millions of USD***

| | Debt Outstanding | Estimated Percentage Applicable | Estimated Share of Direct and Overlapping Debt |
|---|---|---|---|
| **Governmental Unit** | | | |
| School District of Philadelphia | 2,984.5 | 100.00% | 2,984.5 |
| [1] **City Direct Debt** | | | 4,041.9 |
| Total Direct and Overlapping Debt | | | 7,026.4 |

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 2007 through 2016

**Table 15**

*Amounts in Millions of USD*

Legal Debt Margin Calculation for FY2016

| | |
|---|---|
| Assessed Value | 40,400.0 |
| Debt Limit | 5,454.0 |
| [1] Debt Applicable to Limit: | |
| Tax Supported General Obligation Debt: | |
| Issued & Outstanding | 1,504.7 |
| Authorized but Unissued | 336.7 |
| Total | 1,841.4 |
| Less: Amount set aside for repayment of general obligation debt | - |
| Total Net Debt Applicable to Limit | 1,841.4 |
| Legal Debt Margin | 3,612.6 |

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Debt Limit (notes 2, 3, 4, and 5) | 1,374.7 | 1,418.0 | 1,469.4 | 1,523.4 | 1,571.9 | 1,622.3 | 1,670.0 | 3,011.1 | 4,288.7 | 5,454.0 |
| Total Net Debt Applicable to Limit | 1,293.4 | 1,329.3 | 1,352.3 | 1,407.0 | 1,474.6 | 1,542.5 | 1,617.9 | 1,673.4 | 1,751.0 | 1,841.4 |
| Legal Debt Margin | 81.3 | 88.7 | 117.1 | 116.4 | 97.3 | 79.8 | 52.1 | 1,337.7 | 2,537.7 | 3,612.6 |
| Total Net Debt Applicable to the Limit as a Percent of Total Debt | 94.09% | 93.74% | 92.03% | 92.36% | 93.81% | 95.08% | 96.88% | 55.57% | 40.83% | 33.76% |

[1] Refer to Purdon's Statutes 53 P.S. Section 15721

[2] The legal limit is based on the Pennsylvania Constittution article IX Section 12.

[3] Tax Years 2006-2013 assessed values were provided by OPA via The Department of Revenue..

[4] Calendar Year 2013/Tax Year 2014 assessed values were provided by OPA. The higher amount was due to the implementation of the AVI (Actual Value Initiative) in 2013.

[5] Beginning in 2014, the Finance Department began using calendar Year assessed value to calculate the proceeding 10 year average; prior to this change, the Tax Year assessed values was used.

| Calendar Year [4] of assessment | Tax Year of [3,4] assessment | R.E. Assessments |
|---|---|---|
| 2006 | 2007 | 12,268,019,348 |
| 2007 | 2008 | 12,901,810,390 |
| 2008 | 2009 | 13,307,070,680 |
| 2009 | 2010 | 13,102,186,291 |
| 2010 | 2011 | 13,522,847,116 |
| 2011 | 2012 | 13,602,484,741 |
| 2012 | 2013 | 13,755,670,566 |
| 2013 | 2014 | 107,209,023,547 |
| 2014 | 2015 | 106,062,882,977 |
| 2015 | 2016 | 98,268,051,621 |
| | Ten Year average | 40,400,004,727.7 |
| | Limit per art. 9 | 13.50% |
| | Legal Debt Limit | 5,454,000,638 |

**City of Philadelphia** **Table 16**

**Pledged Revenue Coverage**

**For the Fiscal Years 2007 through 2016** *Amounts in millions of USD*

| No. | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Water and Sewer Revenue Bonds** | | | | | | | | | | |
| 1 | Total Revenue and Beginning Fund Balance | 536.2 | 597.8 | 527.5 | 566.7 | 589.7 | 613.3 | 638.4 | 680.4 | 676.8 | 678.9 |
| 2 | Net Operating Expenses | 303.2 | 334.7 | 342.6 | 334.0 | 357.7 | 375.1 | 399.3 | 410.8 | 402.9 | 408.6 |
| 3 | Transfer To (From) Rate Stabilization Fund | 26.0 | (9.8) | (34.7) | (2.7) | 10.9 | 8.5 | (4.7) | 22.9 | 21.4 | (1.6) |
| 4 | Net Revenues | 207.0 | 272.9 | 219.6 | 235.4 | 221.1 | 229.7 | 243.8 | 246.7 | 252.5 | 271.9 |
| | Debt Service: | | | | | | | | | | |
| 5 | Revenue Bonds Outstanding | 172.7 | 173.8 | 183.0 | 195.7 | 184.3 | 191.4 | 201.0 | 201.7 | 205.3 | 219.3 |
| 6 | General Obligation Bonds Outstanding | - | - | - | | | | | | | |
| 7 | Pennvest Loan | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.0 | - | - | - | - |
| 8 | Total Debt Service | 173.9 | 175.0 | 184.2 | 196.9 | 185.5 | 192.4 | 201.0 | 201.7 | 205.3 | 219.3 |
| 9 | Net Revenue after Debt Service | 33.1 | 97.9 | 35.4 | 38.5 | 35.6 | 37.3 | 42.8 | 45.0 | 47.2 | 52.6 |
| 10 | Transfer to General Fund | 5.0 | 5.0 | 4.2 | 2.3 | - | 1.1 | 0.6 | - | - | - |
| 11 | Transfer to Capital Fund | 16.9 | 16.9 | 17.1 | 17.3 | 18.1 | 18.9 | 19.4 | 20.2 | 20.7 | 21.5 |
| 12 | Transfer to Residual Fund | 11.2 | 76.0 | 14.1 | 18.9 | 17.5 | 17.3 | 22.8 | 24.8 | 26.5 | 31.1 |
| 13 | Ending Fund Balance | - | - | - | - | - | - | - | - | - | - |
| | Debt Service Coverage: | | | | | | | | | | |
| | Coverage A (Line 4/Line 5) | 1.20 | 1.57 | 1.20 | 1.20 | 1.20 | 1.20 | 1.21 | 1.22 | 1.23 | 1.24 |
| | Coverage B (Line 4/(Line 8 + Line 11)) | 1.08 | 1.42 | 1.09 | 1.10 | 1.09 | 1.09 | 1.11 | 1.11 | 1.12 | 1.13 |
| | **Airport Revenue Bonds** | | | | | | | | | | |
| 1 | Fund Balance | 10.2 | 42.6 | 61.4 | 55.1 | 77.6 | 65.9 | 69.3 | 66.5 | 66.3 | 71.2 |
| 2 | Project Revenues | 211.3 | 250.5 | 255.3 | 246.9 | 260.8 | 269.6 | 291.8 | 316.9 | 322.8 | 341.2 |
| 3 | Passenger Facility Charges | 32.9 | 32.9 | 32.9 | 33.1 | 32.4 | 31.6 | 31.2 | 31.2 | 31.2 | 31.2 |
| 4 | Total Fund Balance and Revenue | 254.4 | 326.0 | 349.6 | 335.1 | 370.8 | 367.1 | 392.3 | 414.6 | 420.3 | 443.6 |
| 5 | Net Operating Expenses | 87.1 | 99.8 | 99.5 | 102.9 | 98.1 | 99.0 | 110.7 | 117.3 | 126.0 | 132.1 |
| 6 | Interdepartmental Charges | 70.6 | 89.1 | 89.0 | 80.7 | 88.6 | 92.7 | 101.9 | 103.9 | 108.7 | 106.8 |
| 7 | Total Expenses | 157.7 | 188.9 | 188.5 | 183.6 | 186.7 | 191.7 | 212.6 | 221.2 | 234.7 | 238.9 |
| | Available for Debt Service: | | | | | | | | | | |
| 8 | Revenue Bonds (Line 4-Line 5) | 167.3 | 226.2 | 250.1 | 232.2 | 272.7 | 268.1 | 281.6 | 297.3 | 294.3 | 311.5 |
| 9 | All Bonds (Line 4-Line 7) | 96.7 | 137.1 | 161.1 | 151.5 | 184.1 | 175.4 | 179.7 | 193.4 | 185.6 | 204.7 |
| | Debt Service: | | | | | | | | | | |
| 10 | Revenue Bonds | 85.5 | 84.4 | 95.6 | 94.3 | 102.4 | 103.0 | 109.8 | 125.4 | 125.2 | 120.6 |
| 11 | General Obligation Bonds | - | - | - | - | - | - | - | - | - | - |
| 12 | Total Debt Service | 85.5 | 84.4 | 95.6 | 94.3 | 102.4 | 103.0 | 109.8 | 125.4 | 125.2 | 120.6 |
| | Debt Service Coverage: | | | | | | | | | | |
| | Revenue Bonds Only - Test "A" (Line 8/Line 10) | 1.96 | 2.68 | 2.62 | 2.46 | 2.66 | 2.60 | 2.56 | 2.37 | 2.35 | 2.58 |
| | Total Debt Service - Test "B" (Line 9/Line 12) | 1.13 | 1.62 | 1.69 | 1.61 | 1.80 | 1.70 | 1.64 | 1.54 | 1.48 | 1.69 |

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.

Prior to FY 2015, Commitments Cancelled were included as part of Total Revenue and Beginning Fund Balance. Commitments Cancelled represent the liquidation of encumbrances. An encumbrance is an expense that is anticipated to be charged to the Water Fund. Beginning in FY 2015 these amounts were reclassified as contra-expenses and reported under Net Operating Expenses.

## City of Philadelphia — Table 17

### Demographic and Economic Statistics

**For the Calendar Years 2006 through 2015**

| Calendar Year | Population [1] | Personal Income [2] (thousands of USD) | Per Capita Personal Income (USD) | Unemployment Rate [3] |
|---|---|---|---|---|
| 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% |
| 2013 | 1,553,165 | 65,473,002 | 42,155 | 10.0% |
| 2014 | 1,560,297 | 66,495,223 | 42,617 | 8.0% |
| 2015 | 1,567,442 | 77,903,831 | 49,701 | 6.9% |

[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*

| 2015 | 2006 |
|---|---|
| CHILDRENS' HOSPITAL OF PH | ALBERT EINSTEIN MEDICAL |
| CITY OF PHILA | CHILDRENS' HOSPITAL OF PH |
| COMCAST CABLEVISION OF WILLOW GROVE INC | CITY OF PHILA |
| DREXEL UNIVERSITY | SCHOOL DIST OF PHILA |
| SCHOOL DIST OF PHILA | SEPTA |
| SEPTA | TEMPLE UNIVERSITY |
| TEMPLE UNIVERSITY | TENET HEALTHSYSTEM PHILADELPHIA INC |
| THOMAS JEFFERSON UNIVERSITY HOSPITALS | THOMAS JEFFERSON UNIVERSITY HOSPITALS |
| UNIVERSITY OF PENNA (college) | UNIVERSITY OF PENNA (college) |
| UNIVERSITY OF PENNA (hospital) | UNIVERSITY OF PENNA TRUSTEES (hospital) |

## City of Philadelphia

Table 19

## Full Time Employees by Function

**For the Fiscal Years 2007 through 2016**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | | | | | |
| Economic Development | 9 | 6 | 23 | 25 | 27 | 28 | 31 | 29 | 33 | 43 |
| Transportation: | | | | | | | | | | |
| Streets & Highways | 667 | 584 | 568 | 515 | 499 | 524 | 517 | 525 | 506 | 512 |
| Mass Transit | 1 | 1 | 8 | 7 | 9 | 13 | 15 | 15 | 12 | 12 |
| Judiciary and Law Enforcement: | | | | | | | | | | |
| Police | 8,036 | 7,754 | 7,685 | 7,503 | 7,439 | 7,292 | 7,270 | 7,177 | 7,267 | 7,750 |
| Prisons | 1,991 | 2,153 | 2,309 | 2,268 | 2,173 | 2,150 | 2,245 | 2,257 | 2,286 | 2,280 |
| Courts | 3,500 | 3,386 | 3,310 | 3,215 | 3,225 | 3,249 | 3,260 | 3,234 | 3,255 | 3,276 |
| Conservation of Health: | | | | | | | | | | |
| Emergency Medical Services | 311 | 237 | 256 | 329 | 341 | 338 | 375 | 494 | 576 | 534 |
| Health Services | 1,236 | 1,140 | 1,163 | 1,135 | 1,139 | 1,143 | 1,117 | 1,097 | 1,084 | 1,062 |
| Housing and Neighborhood Development | 120 | 108 | 99 | 96 | 94 | 83 | 75 | 72 | 74 | 66 |
| Cultural and Recreational: | | | | | | | | | | |
| Recreation | 589 | 483 | 462 | 453 | 601 | 605 | 596 | 587 | 628 | 636 |
| Parks | 217 | 156 | 152 | 158 | 1 | - | - | | | |
| Libraries and Museums | 829 | 808 | 723 | 687 | 682 | 658 | 651 | 637 | 674 | 666 |
| Improvements to General Welfare: | | | | | | | | | | |
| Social Services | 2,218 | 2,232 | 2,107 | 2,079 | 1,989 | 1,924 | 1,832 | 1,809 | 1,801 | 1,779 |
| Inspections and Demolitions | 450 | 246 | 221 | 223 | 214 | 230 | 286 | 288 | 319 | 323 |
| Service to Property: | | | | | | | | | | |
| Sanitation | 1,338 | 1,239 | 1,169 | 1,157 | 1,185 | 1,154 | 1,152 | 1,158 | 1,155 | 1,159 |
| Fire | 2,121 | 2,052 | 2,019 | 1,820 | 1,838 | 1,700 | 1,705 | 1,643 | 1,719 | 1,871 |
| General Management and Support | 2,494 | 2,414 | 2,393 | 2,276 | 2,225 | 2,454 | 2,384 | 2,456 | 2,497 | 2,601 |
| Total Governmental Activities | 26,127 | 24,999 | 24,667 | 23,946 | 23,681 | 23,545 | 23,511 | 23,478 | 23,886 | 24,570 |
| **Business Type Activities:** | | | | | | | | | | |
| Water and Sewer | 2,415 | 2,291 | 2,256 | 2,196 | 2,116 | 2,228 | 2,218 | 2,302 | 2,347 | 2,358 |
| Aviation | 915 | 1,057 | 1,033 | 1,001 | 1,010 | 1,021 | 1,057 | 1,040 | 1,021 | 1,032 |
| Total Business-Type Activities | 3,330 | 3,348 | 3,289 | 3,197 | 3,126 | 3,249 | 3,275 | 3,342 | 3,368 | 3,390 |
| **Fiduciary Activities:** | | | | | | | | | | |
| Pension Trust | 62 | 59 | 69 | 66 | 65 | 61 | 53 | 50 | 55 | 56 |
| Total Primary Government | 29,519 | 28,406 | 28,025 | 27,209 | 26,872 | 26,855 | 26,839 | 26,870 | 27,309 | 28,016 |

**City of Philadelphia** | **Table 20**
**Operating Indicators by Function**
**For the Fiscal Years 2007 through 2017**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | | | | | |
| **Transportation:** | | | | | | | | | | |
| **Streets & Highways** | | | | | | | | | | |
| Street Resurfacing (miles) | 107 | 74 | 119 | 69 | 36 | 37 | 51 | 34 | 40 | 43 |
| Potholes Repaired | 12,721 | 12,326 | 11,976 | 23,049 | 24,406 | 14,451 | 12,093 | 45,077 | 48,274 | 35,541 |
| **Judiciary and Law Enforcement:** | | | | | | | | | | |
| **Police** | | | | | | | | | | |
| Arrests | 73,606 | 75,805 | 68,922 | 64,465 | 73,310 | 70,971 | 71,109 | 71,650 | 71,661 | 55,693 |
| Calls to 911 | 3,398,985 | 3,164,454 | 3,084,261 | 3,064,973 | 2,949,231 | 3,118,648 | 2,979,990 | 2,879,620 | 2,978,527 | 3,703,809 |
| **Prisons** | | | | | | | | | | |
| Average Inmate Population | 8,796 | 9,133 | 9,554 | 8,806 | 7,935 | 8,240 | 8,987 | 8,759 | 8,254 | 7,685 |
| Inmate Beds (city owned) | 8,443 | 9,005 | 9,137 | 9,137 | 8,200 | 8,417 | 8,417 | 8,417 | 8,417 | 8,428 |
| **Conservation of Health:** | | | | | | | | | | |
| **Emergency Medical Services** | | | | | | | | | | |
| Medic Unit Runs | 216,606 | 215,305 | 217,505 | 222,882 | 227,147 | 273,557 | 280,877 | 239,403 | 243,127 | 263,754 |
| First Responder Runs | 68,203 | 60,756 | 53,610 | 54,960 | 66,763 | 60,972 | 57,047 | 60,296 | 49,529 | 48,965 |
| **Health** | | | | | | | | | | |
| Patient Visits | 323,121 | 334,139 | 349,078 | 350,695 | 339,032 | 348,472 | 341,305 | 309,911 | 290,000 | 72,479 |
| **Cultural and Recreational:** | | | | | | | | | | |
| **Parks** | | | | | | | | | | |
| Athletic Field Permits Issued | 2,227 | 1,389 | 1,420 | 1,388 | 2,714 | 1,978 | 2,442 | 873 | 1,634 | 2,501 |
| **Libraries** | | | | | | | | | | |
| Items borrowed | 6,328,706 | 7,037,694 | 7,419,466 | 6,530,662 | 7,210,217 | 7,503,031 | 6,579,054 | 6,502,087 | 6,511,582 | 5,926,481 |
| Visitors to all libraries | 6,422,857 | 6,648,998 | 6,396,633 | 5,615,201 | 6,103,528 | 6,020,321 | 6,116,762 | 5,563,015 | 5,891,382 | 5,839,145 |
| Visitors to library website | 3,285,380 | 4,912,405 | 4,613,496 | 5,256,928 | 6,131,726 | 6,886,339 | 7,301,311 | 8,194,626 | 9,907,573 | 7,971,946 |
| **Improvements to General Welfare:** | | | | | | | | | | |
| **Social Services** | | | | | | | | | | |
| Children Receiving Services | 28,898 | 25,893 | 35,685 | 31,416 | 28,572 | 28,939 | 27,391 | 17,761 | 18,982 | 19,697 |
| Children in Placement | 8,070 | 7,739 | 7,993 | 8,792 | 7,122 | 7,839 | 8,509 | 8,548 | 7,809 | 8,463 |
| Emergency Shelter Beds (average) | 2,677 | 2,747 | 2,689 | 2,617 | 2,520 | 2,987 | 2,116 | 2,544 | 2,708 | 2,196 |
| Transitional Housing Units (new placements) | 543 | 435 | 476 | 487 | 510 | 558 | 539 | 509 | 509 | 517 |
| **Service to Property:** | | | | | | | | | | |
| **Sanitation** | | | | | | | | | | |
| Refuse Collected (tons per day) | 2,922 | 2,798 | 2,532 | 2,412 | 2,254 | 2,299 | 2,179 | 2,132 | 2,139 | 2,270 |
| Recyclables Collected (tons per day) | 179 | 197 | 288 | 381 | 441 | 461 | 470 | 490 | 442 | 425 |
| **Fire** | | | | | | | | | | |
| Fires Handled | 8,080 | 7,444 | 6,850 | 4,927 | 7,945 | 7,319 | 6,365 | 6,120 | 6,364 | 6,143 |
| Fire Marshall Investigations | 3,153 | 3,097 | 3,031 | 2,726 | 2,711 | 2,387 | 2,135 | 1,943 | 2,183 | 1,715 |
| **Business Type Activities:** | | | | | | | | | | |
| [2] **Water and Sewer** | | | | | | | | | | |
| Millions of gallons of treated water | 95,374 | 93,679 | 91,747 | 91,560 | 93,886 | 87,341 | 89,616 | 90,213 | 86,416 | 84,573 |
| Percent of time Philadelphia's drinking water met or surpassed state & federal standards | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Miles of pipeline surveyed for leakage | 948 | 1,113 | 931 | 1,133 | 995 | 1,137 | 962 | 775 | 637 | 682 |
| Water main breaks repaired | 835 | 679 | 807 | 664 | 962 | 563 | 755 | 918 | 907 | 703 |
| Average time to repair a water main break upon crew arrival at site (hours) | 7.6 | 7.6 | 7.6 | 7.8 | 7.7 | 7.7 | 5.8 | 6.2 | 5.7 | 6.8 |
| Percent of hydrants available | 99.70% | 99.70% | 99.60% | 99.58% | 99.58% | 99.70% | 99.68% | 99.68% | 99.61% | 99.60% |
| Number of storm drains cleaned | 78,478 | 75,804 | 77,012 | 72,802 | 71,771 | 84,395 | 100,251 | 94,653 | 103,056 | 98,105 |
| [1] **Aviation** | | | | | | | | | | |
| Passengers Handled (PIA) | 31,885,333 | 32,287,035 | 30,819,348 | 30,469,899 | 31,225,470 | 30,612,150 | 30,358,905 | 30,539,430 | 30,601,985 | 31,336,138 |
| Air Cargo Tons (PIA) | 571,452 | 575,640 | 475,365 | 440,495 | 449,683 | 416,731 | 388,383 | 395,661 | 402,194 | 414,891 |
| Aircraft Movements (PIA and NPA) | 614,720 | 593,757 | 551,191 | 543,462 | 458,832 | 517,842 | 506,261 | 493,272 | 487,096 | 407,968 |

[1] PIA (Philadelphia International Airport)-passenger aircraft and cargo. NPA (Northeast Philadelphia Airport)-private aircraft and cargo

[2] In prior year Comprehensive Annual Financial Report (CAFR) , Philadelphia Water Department (PWD) reported the following metrics: new connections, the number of water main breaks, average and peak daily treated water delivered, average daily water sewage treatment

**City of Philadelphia**
**Capital Assets Statistics by Function**
**For the Fiscal Years 2007 through 2016**

Table 21

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | | | | | |
| **Transportation:** | | | | | | | | | | |
| **Streets & Highways** | | | | | | | | | | |
| [1] Total Miles of Streets | 2,575 | 2,575 | 2,575 | 2,575 | 2,575 | 2,575 | 2,575 | 2,575 | 2,575 | 2575 |
| Streetlights | 102,840 | 102,949 | 103,982 | 104,219 | 104,219 | 104,600 | 105,151 | 105,151 | 105,151 | 105,151 |
| **Judiciary and Law Enforcement:** | | | | | | | | | | |
| **Police** | | | | | | | | | | |
| Stations and Other Facilities | 34 | 36 | 35 | 35 | 31 | 32 | 37 | 39 | 40 | 50 |
| **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 | 8 |
| **Cultural and Recreational:** | | | | | | | | | | |
| **Recreation** | | | | | | | | | | |
| [5] Recreation Centers | 171 | 171 | 171 | 171 | 153 | 184 | 185 | 184 | 155 | 164 |
| [2] Athletic Venues | 1,117 | 919 | 915 | 914 | 1,148 | 1,102 | 1,101 | 1,107 | 1,108 | 1107 |
| [4] Neighborhood Parks and Squares | 232 | 79 | 79 | 79 | - | - | - | - | - | |
| **Parks** | | | | | | | | | | |
| Parks | 63 | 63 | 63 | 63 | 150 | 177 | 177 | 177 | 209 | 209 |
| Baseball/Softball Fields | 109 | 77 | 79 | 79 | 407 | 404 | 404 | 403 | 403 | 404 |
| **Libraries** | | | | | | | | | | |
| Branch & Regional Libraries | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 |
| **Service to Property:** | | | | | | | | | | |
| **Fire** | | | | | | | | | | |
| Stations and Other Facilities | 64 | 64 | 63 | 63 | 63 | 68 | 68 | 68 | 69 | 63 |
| **Business Type Activities:** | | | | | | | | | | |
| **Water and Sewer:** | | | | | | | | | | |
| Water System Piping (miles) | 3,133 | 3,137 | 3,145 | 3,236 | 3,164 | 3,172 | 3,174 | 3,176 | 3,176 | 3,187 |
| Fire Hydrants | 25,195 | 25,181 | 25,208 | 25,234 | 25,353 | 25,321 | 25,355 | 25,364 | 25,364 | 25,398 |
| Treated Water Storage Capacity ( x 1000 gallons) | 1,065,500 | 1,065,500 | 1,065,500 | 1,065,400 | 1,065,400 | 1,065,400 | 1,065,400 | 1,065,400 | 1,065,000 | 1,065,000 |
| Sanitary Sewers (miles) | 768 | 750 | 749 | 751 | 758 | 759 | 762 | 762 | 762 | 763 |
| Stormwater Conduits (miles) | 784 | 713 | 720 | 721 | 731 | 734 | 738 | 737 | 737 | 740 |
| Sewage Treatment Capacity ( x 1000 gallons) | 1,044,000 | 1,044,000 | 1,044,000 | 1,044,000 | 1,044,000 | 1,044,000 | 1,065,400 | 1,044,000 | 1,044,000 | 1,044,000 |
| [3] **Aviation** | | | | | | | | | | |
| Passenger Gates (PIA) | 120 | 120 | 120 | 120 | 126 | 126 | 126 | 126 | 126 | 126 |
| Terminal Buildings (square footage) (PIA) | 2,415,000 | 2,415,000 | 2,415,000 | 3,144,000 | 3,144,000 | 3,144,000 | 3,144,000 | 3,254,354 | 3,254,354 | 3,254,354 |
| Runways (length in feet) (PIA & NPA) | 42,460 | 42,460 | 43,500 | 43,500 | 43,500 | 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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# APPENDIX D

## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SERVICE AGREEMENT

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## APPENDIX D
## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE SERVICE AGREEMENT

The following sets forth the definitions of certain terms used in the Indenture and Service Agreement and elsewhere in this Official Statement, and a summary of certain provisions of the Indenture and Service Agreement. Capitalized terms used but not defined herein shall have the meanings set forth in the forepart of this Official Statement.

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 Service Agreement, reference should be made to those documents in their entirety, copies of which are available from the Authority and, prior to closing on the 2017 Bonds, at the offices of PNC Capital Markets LLC, and the Trustee after closing as set forth under "INTRODUCTION – Miscellaneous" in the forepart of this Official Statement.

### DEFINITIONS OF CERTAIN TERMS

"**Account**" shall mean any account authorized to be established by the Indenture.

"**Additional Obligations**" shall mean all bonds, notes, evidences of indebtedness, lines of credit or other credit facility or liquidity facility (other than a Credit Facility), or other obligations issued under the Indenture (including all payment and reimbursement obligations in connection therewith) other than the 2017 Bonds, in each case with respect to which the City has agreed to pay the Service Fee.

"**Administrative Expenses**" shall mean the reasonable fees and expenses of the Authority (including the Authority's closing fee with respect to the 2017 Obligations) and the Trustee and any paying agent, remarketing agent or other fiduciary or agent appointed under the Indenture, including reasonable legal fees and expenses, in connection with the funding and administration of the Project, the issuance of any Obligations, the administration of the Indenture, the performance of the Authority's obligations under the Service Agreement, or in connection with inquiring into, or enforcing the performance of, the City's obligations under the Service Agreement or the Indenture.

"**Annual Debt Service Requirement**" shall mean, with respect to each Fiscal Year, the sum of the amounts required to be paid by the Authority in such Fiscal Year for (i) the payment of principal and mandatory sinking fund redemptions of and interest on the Obligations, (ii) payments under any Related Obligations and (iii) the payment of any Credit Facility Payment Obligations.

"**Authorized Representative of the Authority**" shall include the Chairman, Vice Chairman, Secretary and Assistant Secretary of the Authority.

"**Authorized Representative of the City**" shall include the City Treasurer, the Director of Finance or any other Person designated as such in a writing signed by the City Treasurer or the Director of Finance.

"**Certified Resolution**" shall mean one or more resolutions of the governing body of the Authority, certified by the Secretary or Assistant Secretary of the Authority, under its seal, to have been duly adopted or enacted and to be in full force and effect as of the date of certification.

“**Cost**” or “**Costs**” shall mean all costs of the Project which the City or the Authority or either of them is authorized to incur under applicable law (including the Act and the Ordinance) and includes Costs of Issuance.

“**Costs of Issuance**” shall mean the costs of issuance of Obligations, including without limitation underwriting fees; costs of financial, legal, professional and other advice; costs related to a Credit Facility payable in connection with the issuance of such Obligations; and any other expenses as may be necessary or incident to the issuance of such Obligations.

“**Counsel**” shall mean an attorney at law or law firm (which may include counsel to the Authority or the City) not unsatisfactory to the Trustee.

“**Credit Facility**” shall mean any letter of credit, surety bond, insurance policy, standby bond purchase agreement, line of credit or other credit facility or liquidity facility issued or entered into for the benefit of the Holders of the Obligations of any series or any portion thereof to further secure payment of the principal of (including any mandatory sinking fund redemptions), purchase price of, if applicable, and interest on such Obligations.

“**Credit Facility Payment Obligations**” shall mean all payment and reimbursement obligations of the Authority to a Credit Issuer in connection with any Credit Facility securing all or a portion of any series of Obligations. The Authority’s obligations to pay the principal of (including any mandatory sinking fund redemptions) and interest on Obligations held by a Credit Issuer (whether by purchase, subrogation, foreclosure of a pledge of such Obligations or otherwise) shall be Payment Obligations and shall not be Credit Facility Payment Obligations. The Trustee may conclusively rely upon a certificate furnished by the applicable Credit Issuer as to amounts owing to the Credit Issuer.

“**Credit Issuer**” shall mean each provider of a Credit Facility.

“**Event of Default**” shall mean any of the events described under the caption “THE INDENTURE – Events of Default and Remedies – Events of Default Defined” and “THE SERVICE AGREEMENT – Events of Default” below.

“**Fiscal Year**” shall mean the annual accounting year of the City, which currently begins on July 1 of each year.

“**Fund**” shall mean any fund authorized to be established by the Indenture.

“**Government Obligations**” shall mean direct obligations of, or obligations the timely payment of the principal of and interest on which is fully and unconditionally guaranteed by, the United States of America.

“**Holders**” or “**Holder**” (when used with respect to Obligations) shall mean the Person in whose name any Obligation is registered pursuant to the Indenture. A Credit Issuer which owns Obligations by purchase or which is subrogated to the rights of Holders of the Obligations is a Holder of the Obligation for purposes of the Indenture.

“**Independent**” shall mean, with respect to any Person, a Person (i) who is not a member of the Board of the Authority or an elected official of the City; (ii) who is not an officer or employee of the Authority or the City; (iii) which is not a partnership, corporation or association having a partner, director, or officer, who is a member of the Board of the Authority or an elected official of the City, or who is an officer or employee of the Authority or the City; provided, however, that the fact that such Person or entity is retained regularly by or transacts business with the Authority or the City shall not make such Person or entity an employee of the Authority or the City.

"**Independent Certified Public Accountant**" shall mean an Independent accounting firm which is appointed by the Authority for the purpose of examining and reporting on or passing on questions relating to the financial statements of the Authority, has all certifications necessary for the performance of such services and has a favorable reputation for skill and experience in performing similar services in respect of entities engaged in reasonably comparable endeavors.

"**Interest Payment Date**" shall with respect to the 2017 Bonds be as described in the front portion of the Official Statement and for any Additional Obligations be as set forth in a Supplemental Indenture providing for the issuance thereof.

"**Investment Securities**" shall mean:

(1) Government Obligations.

(2) Any bond, debenture, note, participation certificate or other similar obligation issued by any one or combination of the following agencies: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, United States Postal Service, Farmers Home Administration, the Student Loan Marketing Association and Export-Import Bank of the United States.

(3) Any bond, debenture, note, participation certificate or other similar obligation issued by the Federal National Mortgage Association to the extent such obligations are guaranteed by the Government National Mortgage Association or issued by any other Federal agency and backed by the full faith and credit of the United States of America.

(4) Deposits in interest-bearing time or demand deposits, or certificates of deposit, fully insured by the Federal Deposit Insurance Corporation, or its successors, or fully secured by any of the obligations described above to the extent not so insured.

(5) Repurchase agreements relating to, or investment agreements secured by or providing for the acquisition of and, if applicable, resale of, obligations described in paragraphs (1) or (2) above, with: (i) banks or trust companies (which may include any banking entity or depository); (ii) brokers or broker-dealers registered under the Securities Exchange Act of 1934 which are members of the Securities Investors' Protection Corporation and which are acceptable to the City; or (iii) insurance companies rated A+ or better by Best's having a net capital and surplus of at least $25,000,000; provided that any such repurchase agreement or investment agreement shall meet the following requirements: (A) the repurchase or investment agreement must be secured in the principal amount thereof by securities described in paragraphs (1) or (2) above having at all times a fair market value of at least 100% of such agreement and deposited with the Trustee or its agents as collateral therefor, (B) the Trustee shall have a perfected first security interest in such collateral securities, and (C) the collateral securities shall be owned by the pledgor free and clear of any liens or security interests other than that of the Trustee.

(6) Certificates of deposit with such banks or trust companies as described in paragraph (5)(i) above fully secured as to principal and accrued interest by obligations described in paragraphs (1) through (4) deposited with or subject to the control of the Authority or the Trustee.

(7) Money market deposit accounts of banks or trust companies having a net capital and surplus of at least $25,000,000 (which may include the Trustee or any affiliate thereof).

The authorized investments described above in paragraphs (5), (6) and (7) shall only be made if they provide for the repayment of the principal amount invested at an amount not less than that so invested. Whenever security is required as set forth in paragraphs (4) through (7), such security shall be deposited with the Trustee or other agent of the Trustee satisfactory to the Trustee and the City.

(8) Direct and general obligations of any state of the United States, for which the full faith and credit of such state is pledged, if at the time of their purchase such obligations are rated in any of the two highest rating categories by either S&P or Moody's, upon the discontinuance of either or both of such services, such other nationally recognized rating service or services, as the case may be, as shall be determined by an Authorized Representative of the City.

(9) Shares of open-end, diversified investment companies (i) registered under the Investment Company Act of 1940, (ii) investing exclusively in Investment Securities of the types described in subparagraph (1) or (2) of the definition of "Investment Securities" above, (iii) maintaining a constant net asset value per share in accordance with regulations of the Securities and Exchange Commission, and (iv) individually having aggregate net assets of not less than $10,000,000 on the date of purchase; provided that the purchase of shares of any particular investment company shall be limited to an aggregate amount of not more than 5% of the aggregate net assets of that investment company on the date of purchase.

(10) Commercial paper rated in the highest category by S&P and Moody's.

(11) Investment agreements with, or which are guaranteed by, a financial institution or financial services company which has an unsecured, uninsured and unguaranteed obligation rated, at the time such agreement is entered into, in one of the three highest rating categories by Moody's or S&P, or is the lead bank of a parent bank holding company with an uninsured, unsecured and unguaranteed obligation meeting such rating requirements, or is an insurance company or insurance holding company with a claims paying ability rated in one of the three highest categories, provided (i) interest is paid at least semi-annually at a fixed rate during the entire term of the agreement, consistent with interest Payment Dates, (ii) moneys invested thereunder may be withdrawn without any penalty, premium or charge upon not more than seven days' notice (provided such notice may be amended or cancelled at any time prior to the withdrawal date); (iii) the agreement is not subordinated to any other obligations of such financial institution or bank, (iv) the same guaranteed interest rate will be paid on any future deposits permitted to be made under such investment agreement, and (v) the Trustee receives an opinion of counsel that such agreement is an enforceable obligation of such financial institution.

(12) Any other investment permitted under the then-current Investment Policy of the City.

"**Moody's**" shall mean Moody's Investors Service, Inc. and any successor thereto.

"**Obligation**" or "**Obligations**" shall mean the 2017 Obligations and any Additional Obligations.

"**Outstanding**" shall mean, with respect to the Obligations, all Obligations authenticated and delivered under the Indenture, except: (a) all Obligations theretofore cancelled or required to be cancelled under the Indenture; (b) Obligations for the payment of which provision has been made in accordance with the Indenture; and (c) Obligations in substitution for which other Obligations have been authenticated and delivered pursuant to the Indenture.

"**Paying Agent**" or "**Co-Paying Agent**" means any national banking association, bank, bank and trust company or trust company appointed by the Authority pursuant to the Indenture.

"**Payment Date**" shall mean a date on which a payment of principal (including any mandatory sinking fund redemptions) or interest or any other amounts with respect to any Obligations, any amounts due under any Related Obligations or payment of any Credit Facility Payment Obligations shall be due and payable.

"**Payment Obligations**" shall mean the Authority's obligation to repay the Obligations and to pay any Related Obligations.

"**Person**" shall mean an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a limited liability company, a trust, an unincorporated organization, a governmental unit or an agency, political subdivision or instrumentality thereof, or any other group or organization of individuals.

"**Register**" and "**Registrar**" shall have the meanings specified in the Indenture.

"**Related Obligation**" means any payment obligation of the Authority to any person under any loan agreement, continuing covenant agreement, bond purchase agreement or other similar agreement entered into by the Authority in connection with the issuance of Obligations, to the extent that the Indenture or any Supplemental Indenture provide that such obligations are secured under the Indenture as Related Obligations; provided, however, the Authority's obligations to pay the principal of (including any mandatory sinking fund redemptions) and interest on Obligations shall not be Related Obligations. Any Supplemental Indenture providing for a Related Obligation shall set forth the address for notices to each person entitled to payment under such Related Obligation.

"**Reserved Rights**" shall mean the rights of the Authority to receive payments of Administrative Expenses and certain rights of the Authority under the Service Agreement including: certain indemnification rights of the Authority; defenses and immunities which the Authority has under the Pennsylvania Political Subdivision Tort Claims Act or the Commonwealth Agency Act; and certain limitations on the liability of the Authority providing that no provision of the Service Agreement shall give rise to a charge upon the general credit of the Authority, including without limitation in respect of general liability for repayment of the Obligations.

"**Revenues**" shall mean (i) the Service Fee and all other amounts payable to the Authority by the City under the Service Agreement, and all rights to receive the same (except for payments with respect to the Reserved Rights), (ii) all moneys, investments and securities at any time and from time to time held in the Funds and Accounts including all interest earnings and gains on sales of Investment Securities on deposit in such Funds and Accounts established under the Indenture, and (iii) any other amounts appropriated by the City and paid by the City to the Authority or the Trustee and pledged by the Authority as security for the payment of Payment Obligations and Credit Facility Payment Obligations or received from any other source by the Authority or the Trustee and pledged by the Authority as security for the payment of Payment Obligations and Credit Facility Payment Obligations.

"**S&P**" shall mean S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, a division of S&P Global Inc. and any successor thereto.

"**Supplemental Indenture**" or "indenture supplemental thereto" shall mean any indenture amending or supplementing the Indenture which may be entered into in accordance with the provisions of the Indenture.

## THE INDENTURE

### Pledge of the Trust Estate

The pledge of the Trust Estate is described in the forepart of this Official Statement under "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS – 2017 Bonds – Indenture."

### Issue of Additional Obligations

Additional Obligations may be issued upon satisfaction of the conditions set forth in the Supplemental Indenture providing for the issuance thereof and the Authority may incur Related Obligations; provided that no Additional Obligation may be issued under the Indenture or any Related Obligation incurred unless the City executes and delivers to the Authority an amendment or supplement to the Service Agreement acknowledging the issuance of such Additional Obligations or incurrence of such Related Obligations and confirming the obligations of the City to pay the Service Fee in amounts sufficient to pay the Payment Obligations with respect to such Additional Obligations or Related Obligations. Proceeds of Additional Obligations shall be deposited as set forth in the Supplemental Indenture providing for the issuance thereof.

### Project Fund

Establishment of Project Fund; Accounts within Fund. The Trustee shall establish a Project Fund for the payment of Costs of the Project (including Costs of Issuance) and shall deposit into the Project Fund the specified proceeds of the 2017 Obligations in accordance with the written directions delivered pursuant to the Indenture. All amounts deposited into the Project Fund shall be held for the security of all Outstanding Obligations, Related Obligations and Credit Facility Payment Obligations in the order described under "Events of Default and Remedies – Application of Moneys in Event of Default." Accounts and subaccounts within the Project Fund shall be maintained by the Trustee at the written direction of an Authorized Representative of the City if the City determines that such separate account or subaccount is desirable with respect to designated portions of the Project.

Payments from Project Fund. Payments from the Project Fund established under the Indenture shall be made in respect of Costs of the Project (including Costs of Issuance) upon compliance with the requirements of the Indenture.

### Revenues of the Authority, and the Application Thereof to Funds

Revenues to Be Paid Over to Trustee. The Revenues and all moneys, securities and funds held or set aside or to be held or set aside pursuant to the Indenture by the Trustee or in any Fund, Account or subaccount created by the Indenture and all other pledged property comprising the Trust Estate are pledged and a security interest is therein granted, to secure the payment of the Payment Obligations, any Related Obligations and Credit Facility Payment Obligations; provided, however, that the pledge and security interest granted in the Indenture to secure the Authority's obligation to pay Credit Facility Payment Obligations shall be subject and subordinate to the pledge and security interest therein granted to secure Payment Obligations. The pledge of the Trust Estate under the Indenture as security for the performance of all obligations of the Authority under the Indenture shall be valid and binding from the time such pledge is made. The Trust Estate shall immediately be subject to the lien of the Indenture without any physical delivery thereof or further act. The Authority shall pay or cause to be paid the Revenues directly to the Trustee. Upon receipt of any Revenues, or other amounts forming a part of the Trust Estate under the Indenture, the Trustee shall deposit the same in the appropriate Fund or Funds established under the Indenture. Except as otherwise provided in the Indenture, the Trust Estate under the Indenture shall be collected, held and applied for the equal and ratable benefit and security of all Holders of the Obligations and Persons entitled to payment under Related Obligations.

Revenue Fund; Application Thereof. The Trustee shall establish a Revenue Fund, into which it shall deposit all Revenues received by it. Amounts on deposit in the Revenue Fund shall be transferred, on each Payment Date, first, to the Debt Service Fund, to the extent (if any) needed to increase the amount in the Debt Service Account so that it equals the Payment Obligations then due on such Payment Date, and second, into the Subordinated Payment Obligations Fund, the amount of any Credit Facility Payment Obligations due on such Payment Date.

Debt Service Fund, Application Thereof. The Trustee shall establish and maintain a Debt Service Fund. Moneys on deposit in the Debt Service Fund shall be applied on each Payment Date as follows:

(a) to the payment, when due, of interest on all Outstanding Obligations (including accrued interest due upon redemption);

(b) to the payment, when due, of the principal of Obligations then payable at maturity or mandatory sinking fund redemption (but, except as otherwise provided in the Indenture, only upon surrender of such Obligations), subject to reduction by the principal amount of Obligations of the same series, maturity and interest rate purchased by the Authority and surrendered to the Trustee for cancellation or purchased for cancellation by the Trustee as described in subparagraph (c) below; and

(c) during the 12-month period preceding each principal maturity or mandatory sinking fund redemption date, the Trustee shall, at the written request of the Authority, accept the purchase of Obligations of the series, maturity and interest rate becoming due or subject to mandatory redemption on such date from funds in the Debt Service Fund; provided, however, that no such purchase shall be made unless the purchase price does not exceed 100% of the principal amount of the Obligations so to be purchased plus accrued interest.

(d) To the payment, when due, of any Related Obligation; provided, the Trustee has been provided with the written notice required under the Indenture.

Payments from the Debt Service Fund shall be made ratably (to the extent payable on the same date) by the Trustee according to amounts due in respect of each Obligation or Related Obligation without preference of one Obligation or Related Obligation over another.

Subordinated Payment Obligations Fund; Application Thereof. The Trustee shall establish a Subordinated Payment Obligations Fund into which the Trustee shall deposit for each series of Obligations amounts required to be deposited therein with respect to any Credit Facility Payment Obligations. The Trustee shall withdraw from the Subordinated Payment Obligations Fund on each Payment Date the amount of any Credit Facility Payment Obligations due on such date and shall cause the same to be paid to the applicable Credit Issuer. Payments from the Subordinated Payment Obligations Fund shall be made ratably (to the extent payable on the same date) by the Trustee according to the amounts due in respect of each Credit Facility Payment Obligation without priority or preference of one Credit Facility Payment Obligation over another.

Procedure When Funds Are Sufficient to Pay All Obligations. If at any time the amounts held by the Trustee in the Funds established under the Indenture are sufficient to pay principal of and interest on all Obligations then Outstanding to maturity or prior redemption, together with any amounts due the Trustee, the Trustee shall so notify the Authority and the City and, if so directed by the City, the Trustee shall apply the amounts in the Funds to the payment of the aforesaid obligations to effect a defeasance of the Obligations in accordance with the Indenture.

Moneys to Be Held for All Holders of the Obligations, With Certain Exceptions. Until applied as provided in the Indenture, moneys and investments held in all Funds and Accounts established and held under the lien of the Indenture shall be held in trust for the benefit of the holders of all Outstanding Obligations, persons entitled to payment under any Related Obligations and each Credit Issuer, except that: (a) on and after the date on which the interest on and principal (including any mandatory sinking fund redemptions) of any particular Obligation or Obligations is due and payable from the Debt Service Fund, the unexpended balance of the amount deposited or reserved in such Fund for the making of such payments shall, to the extent necessary therefor, be held for the benefit of the Holder of the Obligations or Holders of the Obligations entitled thereto; and (b) the rights of any Holders of the Obligations with respect to principal or interest payments extended beyond their due dates pursuant to the Indenture shall be subordinate to the rights of Holders of the Obligations with respect to payments not so extended.

**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 be considered trust funds, shall not be subject to lien or attachment and shall, except as hereinafter described, be deposited in the trust department of the Trustee, until or unless invested or deposited as provided in the provisions of the Indenture described under "Investment or Deposit of Funds" below. All deposits in the trust department of the Trustee (whether or not original deposits under the Indenture) shall be secured as provided by law for such trust deposits. If at any time the trust department of the Trustee is unwilling to accept such deposits or unable to secure them as provided above, the Trustee may at the direction of an Authorized Representative of the City, deposit such moneys with any other depository which is authorized to receive them and which is able to secure them as described above.

Investment or Deposit of Funds. Moneys on deposit in the Funds established pursuant to the Indenture shall be invested and reinvested by the Trustee at the direction of an Authorized Representative of the City. All investments shall constitute Investment Securities and shall mature, or be subject to repurchase, withdrawal without penalty or redemption at the option of the holder on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Indenture.

The principal of the Investment Securities and the earnings thereon, including interest, income and net profits received in respect thereof, shall be applied upon receipt as follows: (i) earnings on the Revenue Fund, the Settlement Fund, the Project Fund and the Debt Service Fund shall in each case be retained in such Fund or Account; and (ii) whenever any other transfer or payment is required to be made from any particular Fund, such transfer or payment shall be made from such combination of maturing principal, redemption or repurchase prices, liquidation proceeds and withdrawals of principal as the Authority at the direction of the City deems appropriate for such purpose, after taking into account such factors as future transfers or payments from the Fund or Account in question, the reinvestment opportunities for maturing principal, the current yield on any Investment Securities to be redeemed, withdrawn or sold, and any penalties, gains or losses to be realized upon any such redemption, withdrawal or sale.

The Trustee shall not be accountable for any depreciation in the value of the Investment Securities or any losses incurred upon any authorized disposition thereof.

Valuation of Funds. The Trustee shall value the assets in each of the Funds or Account established under the Indenture as of June 30 of each year, or more frequently at the direction of the City or the Authority, at their amortized cost, not including accrued interest, after taking into account all transfers or payments then required to be made from each Fund or Account. As soon as practicable after each such date of valuation, the Trustee shall furnish to the Authority and the City a report of the status of each Fund or Account as of such date. In computing the assets of any Fund or Account, investments, including accrued interest thereon, shall be deemed a part thereof, subject to the provisions of the Indenture.

**Covenants of Authority**

The covenants of the Authority under the Indenture include:

Payment of Obligations. The Authority shall promptly pay the interest on and the principal and redemption price of Obligations and payments due under Related Obligations, but only out of the Trust Estate.

Corporate Existence and Maintenance of Properties. The Authority shall (a) maintain its corporate existence, (b) maintain its power to perform its obligations under the Indenture, and (c) maintain the Service Agreement in full force and effect.

Compliance with Service Agreement. The Authority covenants and agrees that (i) it shall comply with all applicable provisions of the Service Agreement, as if contained in the Indenture; (ii) it shall enforce against the City the obligations of the City under the Service Agreement, including, without limitation, the obligation to pay the Service Fee when due; (iii) it shall cause a true and correct copy of the Service Agreement certified by an Authorized Officer of the Authority to be filed with the Trustee, and a true and correct copy of any amendment to the Service Agreement to be filed with the Trustee; and (iv) it shall furnish to the Trustee such documents, certificates and reports as it may be required under the terms of the Service Agreement to deliver to the City from time to time, whether or not otherwise specifically required under the Indenture.

Extension of Time for Payment. The Authority shall not directly or indirectly extend or assent to the extension of the time for payment of the principal of or interest on any Obligations and shall not directly or indirectly be a party to or approve any arrangement therefor. Notwithstanding the foregoing, the Holder of any Obligation may extend the time for payment of the principal of or interest on such Obligation; provided, however, that upon the occurrence of an Event of Default, funds available under the Indenture for the payment of the principal of and interest on the Obligations shall not be applied to any payment so extended until all principal and interest payments which have not been extended have first been paid in full.

Further Assurances; Additional Revenues. The Authority shall not enter into any contract or take any action by which the rights under the Indenture of the Trustee or the Holders of the Obligations, persons entitled to payment under any Related Obligations or Credit Issuers may be impaired and shall, from time to time, execute and deliver such further instruments and take such further action as may be required to carry out the purposes of the Indenture and each Supplemental Indenture and for the better assuring, transferring, conveying, pledging, assigning and confirming unto the Trustee the Trust Estate. If at any time the Authority receives any Revenues which are not assigned to the Trustee, it shall promptly pay the same to the Trustee for deposit in the Revenue Fund and, at the request of the Trustee, shall execute and deliver an assignment of its right, title and interest in and to future income or payments of the same type to the Trustee to be held as part of Revenues and file or record such assignment as may be appropriate to perfect the security interest created by the Indenture.

Creation of Liens. The Authority shall not issue any bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Obligations, Related Obligations and Credit Facility Payment Obligations, payable out of or secured by a pledge or assignment of the Trust Estate and shall not create or cause to be created any lien or charge on the Trust Estate.

**Events of Default and Remedies**

Events of Default Defined. Each of the following shall be an Event of Default under the Indenture:

(i) if payment of any installment of interest on the Obligations is not made when it becomes due and payable; or

(ii) if payment of the principal of any Obligation is not made when it becomes due and payable at maturity or mandatory sinking fund redemption; or

(iii) if the Authority defaults in the due and punctual performance of any other covenant in the Obligations or in the Indenture and such default continues for sixty (60) days after written notice requiring the same to be remedied shall have been given to the Authority and the City by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of any Credit Issuer or the holders of not less than 25% in principal amount of Obligations then Outstanding provided, however, that if such performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such sixty (60)-day period, no Event of Default shall be deemed to have occurred or exist if and so long as the Authority or the City shall commence such performance within such sixty (60)-day period and shall diligently and continuously prosecute the same to completion and provides the Trustee with a certification to that effect; or

(iv) if the City fails to pay the Service Fee at the times and in the amounts required under the Service Agreement and any grace period with respect to such failure under the Service Agreement shall have lapsed; or

(v) if the Authority fails to comply with the Act; or

(vi) if the Trustee shall have received a written notice that an event of default has occurred under any agreement giving rise to a Related Obligation.

The Trustee shall notify the Authority, the City, each Credit Issuer and all Holders of the Obligations and any persons entitled to payment under any Related Obligations in accordance with the provisions of the Indenture of the occurrence of any Event of Default.

*The Service Agreement provides that an acceleration of the Authority's payment obligations with respect to the Obligations, with respect to any Related Obligations or with respect to any Credit Facility Payment Obligation shall not cause an acceleration of the payment of the Service Fee thereunder.*

Acceleration and Annulment Thereof. If any Event of Default described under paragraphs (i), (ii), or (iii) of the caption "Events of Default Defined" above has occurred and is continuing, the Trustee may, and at the written direction of the Holders of a majority in principal amount of the Obligations then Outstanding the Trustee shall, by notice in writing to the Authority, declare the principal of all Obligations then Outstanding to be immediately due and payable, and upon such declaration the said principal, together with interest accrued thereon, shall become due and payable immediately at the place of payment provided therein, anything in the Indenture or in the Obligations to the contrary notwithstanding; provided, however, that no such declaration shall be made, if the Authority or the City cures such Event of Default prior to the date of the declaration.

If after the principal of the Obligations has been so declared to be due and payable, all arrears of principal and interest upon the Obligations are paid by the Authority, and the Authority also performs all other things in respect to which the Authority may have been in default under the Indenture and pays the reasonable charges of the Trustee and the Holders of the Obligations, including reasonable attorney's fees, then, and in every such case, the Trustee may annul such declaration and its consequences and such annulment shall be binding upon the Trustee and upon all Holders of Obligations issued under the Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Legal Proceedings by Trustee. If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the Holders of a majority in principal amount of the Obligations then Outstanding and receipt of indemnity to its 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 of the Obligations including the right to require the Authority to enforce collection of all amounts due and payable under the Service Agreement (other than with respect to the Reserved Rights) and to require the Authority to carry out any other agreements with, or for the benefit of, the Holders of the Obligations and to perform its duties under the Act; (b) bring suit upon the Obligations; (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 of the Obligations; and (d) by action or suit in equity enjoin any acts or things which maybe unlawful or in violation of the rights of the Holders of the Obligations, all persons entitled to payment under any Related Obligations and the Credit Issuers.

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, the Credit Issuers, all persons entitled to payment under any Related Obligations and the Holders of the Obligations shall be restored to their former positions and rights under the Indenture as though no such proceeding had been taken.

Holders of the Obligations May Direct Proceedings. The Holders of a majority in principal amount of the Obligations 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 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 of the Obligations not parties to such direction.

Limitations on Actions by Holders of the Obligations. No Holder of the Obligations 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 a majority in principal amount of the Obligations then Outstanding shall have requested the Trustee, in writing, to exercise the powers granted as described above or to pursue such remedy in its or their name or names, (c) the Trustee shall have been offered indemnity and security satisfactory to it against fees, costs, expenses and liabilities, including reasonable attorneys' fees, and (d) the Trustee shall have failed to comply with such request within a reasonable time.

Trustee May Enforce Rights Without Possession of Obligations. All rights under the Indenture and the Obligations may be enforced by the Trustee without the possession of any 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 ratable benefit of the Holders of the Obligations.

Remedies Not Exclusive. Except as limited under certain provisions of the Indenture, 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, including, without limitation, all remedies given under the Act.

Delays and Omissions Not To Impair Rights. No delay or omission in respect of exercising any right or power accruing upon any default shall impair such right or power or be a waiver of such default, and every remedy given by the Indenture may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys in Event of Default. Subject to the provisions of the Indenture described above under the caption "Revenues of the Authority, and the Application Thereof to Funds – Moneys to be Held for All Holders of the Obligations, With Certain Exceptions" any moneys on deposit in any Fund or Account established under the Indenture and any moneys received by the Trustee under the provisions of the Indenture described under the caption "Events of Default and Remedies" shall be applied after the occurrence of an Event of Default under the Indenture,

First: To the payment of the costs of the Trustee, including counsel fees, any disbursements of the Trustee with interest thereon and its reasonable compensation;

Second: Subject to the provisions of the Indenture permitting the Holders of Obligations to extend the time for payment of the principal of or interest on Obligations, to the payment of all interest on Outstanding Obligations then due or, if the amount available is insufficient for such purpose, to the payment of interest ratably in accordance with the amount due in respect of each Obligation;

Third: Subject to the provisions of the Indenture permitting the Holders of Obligations to extend the time for payment of the principal of or interest on Obligations, to the payment of the outstanding principal amount of all Obligations or, if the amount available for the payment of principal is insufficient for such purpose, to the payment of principal ratably in accordance with the amount due in respect of each Obligation;

Fourth: To the payment of any amounts then due under any Related Obligations or, if the amount available for such payment is insufficient for such purpose, to the payment of such amount ratably in accordance with the amount due in respect of each Related Obligation; and

Fifth: To the payment to any Credit Issuer of any Credit Facility Payment Obligation then due or, if the amount available is insufficient for such purpose, to the payment of Credit Facility Payment Obligations ratably in accordance with the amount due in respect of each Credit Facility Payment Obligation.

The surplus, if any, shall be paid to the City or the person lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Trustee's Right to Receiver; Compliance with Act. As provided by the Act, the Trustee shall be entitled as of right to the appointment of a receiver if an Event of Default under the Indenture shall have occurred and be continuing; and the Trustee, the Credit Issuers, the Holders of the Obligations, any persons entitled to payment under any Related Obligations 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 of the Obligations Entitled to All Remedies Under Act. It is the purpose of the Indenture to provide such remedies to the Trustee and Holders of the Obligations 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 of the Obligations shall nevertheless be entitled to every other remedy provided by the Act. It is further intended that, insofar as lawfully possible, the provisions of the Indenture described above under the caption "Events of Default and Remedies" shall apply to and be binding upon the trustee or receiver appointed under the Act.

Direction of Remedies by a Credit Issuer. Except as otherwise specifically provided in the provisions of the Indenture described above under the caption "Events of Default and Remedies," each Credit Issuer issuing a Credit Facility securing a series of Obligations shall have the right to direct the Trustee in the exercise of remedies under the provisions of the Indenture described above under the caption "Events of Default and Remedies" (including, without limitation, the declaration of the acceleration of the maturity of such Obligations or any annulment of such declaration) on behalf of and in lieu of the Holders of the Obligations of such series so long as the Credit Issuer shall not be in default of its payment obligations under the Credit Facility issued by it and provided that the Credit Facility issued by it remains in full force and effect.

**The Trustee**

Notice of Default; Right to Investigate. The Trustee shall give written notice to all Holders of the Obligations, to any persons entitled to payments under any Related Obligations and to each Credit Issuer by first class mail of each Event of Default known to the Trustee within 90 days (30 days in the case of notices to the Credit Issuers) after a responsible officer of the Trustee obtains actual knowledge of such Event of Default; provided that, except in the case of a default in payment of principal, redemption price or interest, the Trustee may withhold such notice to the Holders of the Obligations (but not to any Credit Issuer) so long as it in good faith determines that such withholding is in the interest of the Holders of the Obligations. The Trustee shall not be deemed to have notice of any Event of Default unless it has actual knowledge of such Event of Default or it has been notified in writing of such Event of Default by the Authority or by the holders of at least a majority in principal amount of the Obligations then Outstanding, any person entitled to payment under any Related Obligations or any Credit Issuer. 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.

Obligation to Act on Defaults. The Trustee shall be under no obligation to take any action in respect of any default or otherwise, except a default with respect to the payment of principal or interest as the same shall become due and payable upon maturity or mandatory sinking fund redemption, unless it is requested in writing to do so by the Holders of at least a majority in principal amount of the Obligations then Outstanding and, if in its opinion such action may tend to involve expense or liability, unless it is also furnished with indemnity and security satisfactory to it.

Trustee May Deal in Obligations. The Trustee may in good faith buy, sell, own, hold and deal in any of the Obligations and may join in any action which any Holders of the Obligations may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee may also engage in or be interested in financial or other transactions with the Authority; provided that such transactions are not in conflict with its duties 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 not less than sixty (60) days before the date when such resignation is intended to take effect; provided that notice of any such resignation shall be mailed by the resigning Trustee to the Holders of all Outstanding Obligations at their registered addresses, all persons entitled to payment under any Related Obligations and each Credit Issuer not less than 30 days prior to the intended effective date of the resignation, and that no resignation shall take effect until a successor Trustee has been appointed and has accepted such appointment. In case at any time the Trustee shall resign and no appointment of a successor Trustee shall be made pursuant to the provisions of the Indenture prior to the date specified in the notice of resignation as the date when such resignation shall take effect, the retiring Trustee or any Holder of the Obligations may forthwith apply to a court of competent jurisdiction for the appointment of a successor Trustee. Such court may thereupon (after such notice, if any, as it may deem proper and prescribe), appoint a successor Trustee.

Removal of Trustee. Any Trustee under the Indenture may be removed upon thirty (30) days' notice at any time by an instrument appointing a successor to the Trustee so removed, executed by the Authority at the written direction of the City (if no Event of Default under the Indenture has occurred and is continuing) or otherwise executed by the Holders of a majority in principal amount of the Obligations then Outstanding and filed with the Trustee, the Authority, all persons entitled to payment under any Related Obligations and each Credit Issuer. Any such removal shall be effective on the date on which a successor Trustee has been appointed and has accepted such appointment. Notice of any such removal shall be mailed promptly by the Authority to the Holders of all Outstanding Obligations at their registered addresses.

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, the Authority shall appoint a successor and shall mail or cause to be mailed notice of such appointment. If the Authority at the written direction of the City fails to make such appointment within thirty (30) days, the appointment may be made by the Holders of a majority in principal amount of the Obligations then Outstanding. Notice of any such appointment shall be mailed promptly by the successor Trustee to the Holders of all Outstanding Obligations at their registered addresses.

Qualification of Successor. A successor trustee shall be a national bank with trust powers, a banking association with trust powers, or a bank and trust company or a trust company organized under the laws of the Commonwealth of Pennsylvania, in each case having a combined net capital and surplus of at least $50,000,000 (or the obligations and liabilities of which are irrevocably and unconditionally guaranteed by an affiliated company having a combined net capital and surplus of at least $50,000,000).

**Amendments and Supplements**

Amendments and Supplements without the Consent of the Holders of the Obligations. The Indenture may be amended or supplemented from time to time, without the consent of the Holders of the Obligations, but with the consent of the City by a Supplemental Indenture authorized by a Certified Resolution of the Authority filed with the Trustee, for one or more of the following purposes: (a) to add additional covenants of the Authority or to surrender any right or power conferred in the Indenture upon the Authority; (b) to cure any ambiguity or to cure any defect in the Indenture in such manner as shall not be inconsistent with the provisions thereof; (c) to modify, supplement, alter or amend the provisions of the Indenture in such manner as may be requested by a securities rating service in order to obtain a securities rating or ratings for any Obligations or to maintain or improve any such rating or ratings previously obtained; (d) to modify, supplement, alter or amend the provisions of the Indenture in such manner as may be necessary or appropriate to conform the provisions of the Indenture to the provisions of the Service Agreement as it may be amended from time to time; (e) to set forth such matters (not inconsistent with the provisions of the Indenture) as may be necessary or appropriate in connection with the issuance of any series of Obligations or the incurrence of any Related Obligations; or (f) to make such other changes in the Indenture as the Authority and the Trustee deem appropriate; provided that the provision described in the foregoing clause (f) shall not permit amendments or supplements to be made which materially adversely affect the security of the Indenture or the rights of Holders of the Obligations under the Indenture.

Amendments with the Consent of the Holders of the Obligations. The Indenture may be amended from time to time, with the consent of the City, by a Supplemental Indenture approved by the Holders of at least a majority in aggregate principal amount of the Obligations then Outstanding; provided, that (a) no amendment shall be made which adversely affects the rights of some but less than all series of Obligations without the consent of the Holders of at least a majority of the then Outstanding Obligations so affected, and (b) no amendment which alters the interest rates on or principal amounts of any

Obligations, the maturities, mandatory redemption provisions or Interest Payment Dates of any Obligations or the provisions of the Indenture described under the caption "Amendments and Supplements" may be made without the consent of the Holders of all Outstanding Obligations adversely affected thereby.

A Credit Issuer of a Credit Facility securing a series of Obligations shall have the right to consent to amendments on behalf of and in lieu of the Owners of the Obligations of such Series (except with respect to the matters referred to in the proviso of the immediately preceding paragraph), so long as such Credit Issuer shall not be in default of its obligations under such Credit Facility.

Trustee Authorized to Join in Amendments and Supplements; Reliance on Counsel. The Trustee is authorized to join with the Authority in the execution and delivery of any Supplemental Indenture or amendment permitted by the Indenture and in so doing shall be fully protected by an opinion of Counsel that such Supplemental Indenture or amendment is so permitted and has been duly authorized by the Authority and that all things necessary to make it a valid and binding agreement have been done.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the provisions of the Indenture, the Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under the Indenture of the Trustee, the Authority, any persons entitled to payment under any Related Obligations and the Holders of Obligations issued under the Indenture shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to the applicable provisions of the Supplemental Indenture so executed.

Amendments to Service Agreement. The Authority may amend or supplement the Service Agreement in connection with the issuance of Additional Obligations or the incurrence of Related Obligations and to make such changes therein as may be deemed appropriate by the Authority and the City; provided, however, that the approval by the Holders of at least a majority in aggregate principal amount of the Obligations then Outstanding shall be required for any amendment or supplement to the Service Agreement that would materially adversely affect the security of the Service Agreement or of the Indenture or the rights of Holders of the Obligations under the Indenture; and provided further, that the Authority shall not amend or supplement the Service Agreement in any manner which would adversely affect the validity or enforceability of the Service Agreement.

A Credit Issuer of a Credit Facility securing a series of Obligations shall have the right to consent to amendments of the Service Agreement on behalf of and in lieu of the Owners of the Obligations of such Series, so long as such Credit Issuer shall not be in default of its obligations under such Credit Facility.

The Trustee shall receive an opinion of Counsel provided by the Authority that such amendment or supplement to the Service Agreement is permitted by the Indenture and by the Service Agreement and that all things necessary to make it a valid and binding agreement have been done, and the Trustee shall be fully protected in relying on such opinion.

**Defeasance**

Defeasance. When all interest on and principal or redemption price (as the case may be) of, all Obligations issued under the Indenture have been paid, or there shall have been deposited with the Trustee an amount, evidenced by moneys or "escrowed obligations" (as defined below) the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Obligations at the maturity date (including any mandatory sinking fund redemptions) or date fixed for redemption thereof, as well as all other sums payable under the Indenture by the Authority, and all Related Obligations and Credit Facility Payment Obligations have been paid or provided for, the right, title and interest of the Trustee shall thereupon cease and the Trustee, on demand of the Authority, shall release the Indenture and all Supplemental Indentures 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, body or authority as may be entitled to receive the same all balances remaining in any funds under the Indenture. For the purposes of the Indenture, "escrowed obligations" shall mean the following, but only to the extent they are Investment Securities at the time of delivery to the Trustee: (a) Government Obligations; (b) rights to receive the principal of or the interest on Government Obligations through (i) direct ownership, as evidenced by physical possession of such Government Obligations or unmatured interest coupons thereof or by registration as to ownership thereof on the books of the issuer or its duly authorized paying agent or transfer agent, or (ii) purchase of certificates or other instruments evidencing an undivided ownership interest in payments of the principal of or interest on Government Obligations; (c) debt obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision, provided that (i) the principal of and interest on such obligations are secured by and payable from amounts received (without reinvestment) in respect of the principal of and interest on non-callable Government Obligations, and (ii) such debt obligations are rated "AAA" by S&P, if S&P has assigned a rating to the Obligations, and "Aaa" by Moody's, if Moody's has assigned a rating to the Obligations (or, upon the discontinuation of both of the foregoing rating services, by such other nationally recognized rating service or services as may be acceptable to the Authority and the Trustee).

In the event the Authority deposits "escrowed obligations" with the Trustee as provided in the Indenture, the lien of the Indenture shall not be defeased unless the Trustee shall have received a report of an Independent Certified Public Accountant verifying the sufficiency of such escrowed obligations for the purposes of the defeasance provisions of the Indenture.

Deposit of Funds for Payment of Obligations. If the Authority deposits with the Trustee moneys or "escrowed obligations" (as described above) the principal of and interest on which, when due, are sufficient to pay the principal or redemption price of any particular Obligation or Obligations becoming due, either at maturity (including any mandatory sinking fund redemptions) or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on the Obligation or Obligations shall cease to accrue on the due date and all liability of the Authority with respect to such Obligation or Obligations shall likewise cease, except as described in the paragraph below; provided that if such Obligations are to be redeemed prior to maturity thereof, there shall have been taken all action necessary to call such Obligations for redemption and notice of such redemption shall have been duly given or provision satisfactory to the Trustee shall have been made for the giving of such notice. Thereafter such Obligation or Obligations shall be deemed not to be Outstanding under the Indenture and the Holder or Holders of such Obligation or Obligations shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such Obligation or Obligations, and the Trustee shall hold such funds in trust for such Holder or Holders.

Moneys deposited with the Trustee pursuant to the Indenture which remain unclaimed six (6) years after the date payment thereof becomes due shall, at the direction of the Authority or the City, 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 Obligations contained, be paid to the Authority for and on account of the City; and the Holders of the Obligations for which the deposit was made shall thereafter be limited to a claim against the Authority; provided, however, that before making any such payment to the Authority, the Trustee shall, at the expense of the Authority, give notice to Holders of such Obligations by first class mail stating that moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than thirty (30) days after the date of mailing of such notice, the balance of such moneys then unclaimed will be paid to the Authority.

**Miscellaneous Provisions**

Limitations on Recourse. No personal recourse shall be had for any claim based on the Indenture or the Obligations, any Related Obligations or any Credit Facility against any member, officer or employee, past, present or future, of the Authority or of any successor body as such, either directly or through the Authority or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or otherwise. The Obligations the Related Obligations and the Credit Facility Payment Obligations are payable solely from the Trust Estate held under the Indenture for such purpose.

References to the Credit Issuer. References to any Credit Issuer in the Indenture or in any Supplemental Indenture shall be deemed inapplicable at any time that (A)(i) no Credit Facility issued by such Credit Issuer is in effect with respect to Obligations and (ii) no amount is owing to such Credit Issuer by the Authority or (B) such Credit Issuer is in default of its payment obligations under the Credit Facility issued by it.

## THE SERVICE AGREEMENT

**Additional Obligations**

Upon the written request of the Director of Finance of the City, the Authority may issue Additional Obligations to refund Outstanding Obligations, including amounts necessary for Costs of Issuance of such Additional Obligations, costs of credit or liquidity enhancement, and other amounts necessary to effect any refunding and may also incur Related Obligations and Credit Facility Payment Obligations. In connection with the issuance of Additional Obligations and any incurrence of Related Obligations and Credit Facility Payment Obligations, the Authority and the City shall enter into an appropriate supplement to the Service Agreement, subject to the provisions of the Ordinance.

**Service Fee**

In consideration of the undertakings by the Authority under the Service Agreement with respect to the Project, the City agrees to pay as a Service Fee in each Fiscal Year directly to the Trustee, as the assignee of the Authority, the following sums:

(a) The Annual Debt Service Requirement for such Fiscal Year, payable as follows: (i) on the business day immediately preceding the date such amount is required to be paid to the Holders of the Obligations, the amount which is equal to the principal or redemption price of the Obligations becoming due on such principal maturity or mandatory redemption date, subject to credit for other available funds in the manner provided in the Indenture; (ii) on the business day immediately preceding each Interest Payment Date such amount is required to be paid to the Holders of the Obligations, the amount which is equal to interest on the Obligations becoming due on such Interest Payment Date, subject to credit for other available funds in the manner provided in the Indenture; (iii) on the dates specified in any Related Obligations, any other amounts due to the person entitled thereto (to the extent not duplicative of those described in clauses (a)(i) and (ii) above) on the due date for such amounts; and (iv) on or before the dates specified in any Credit Facility, the amounts which are equal to any Credit Facility Payment Obligations becoming due on such dates, subject to credit for other available funds in the manner provided in the Indenture.

(b) Notwithstanding any other provision of the Service Agreement, an acceleration of the Authority's payment obligations with respect to the Obligations, any Related Obligation or with respect to any Credit Facility Payment Obligation shall not cause an acceleration of the payment of the Service Fee.

(c) In lieu of the portion of the payments due as stated above, the City, or at its written direction, the Trustee, may purchase for cancellation Obligations of the series and maturity next becoming due at maturity or upon mandatory sinking fund redemption, subject to the applicable requirements set forth in the Indenture.

The Service Fee shall be payable only out of the current revenues of the City, and the City agrees to provide for the payment of the Service Fee and include the same in its annual operating budget for each Fiscal Year. If the current revenues are insufficient to pay the total Service Fee in any Fiscal Year as the same becomes due and payable, the City covenants to include amounts not so paid in its operating budget for the ensuing Fiscal Year in order to provide sufficient current revenues to pay in each ensuing year such balance due in addition to the amount of Service Fee due for such ensuing year.

The City covenants to make appropriations in each of its Fiscal Years in such amounts as shall be required in order to make all Service Fee payments due and payable under the Service Agreement in each of the City's Fiscal Years.

**No Set-Off**

The obligation of the City to make the payments required under the Service Agreement shall be absolute and unconditional. The City will pay without suspension, abatement, reduction, abrogation, waiver or diminution all payments required thereunder regardless of any cause or circumstance whatsoever, which may then exist or may thereafter arise, including, without limitation, any defense, setoff, recoupment or counterclaim which the City may have or assert against the Authority, the Trustee, any Holder of the Obligations, any person entitled to payments under Related Obligations, any Credit Issuer or any other person.

**City to Perform Certain Covenants under Indenture**

The City acknowledges that it has received an executed copy of the Indenture, and that it is familiar with its provisions, and agrees to be bound to the fullest extent permitted by law to all provisions thereof directly or indirectly relating to it, and that, in consideration of the service of the Authority rendered to the City under the Service Agreement, it will take all such actions as are required of it under the Indenture to preserve and protect the rights of the Trustee, the Holders of the Obligations, persons entitled to payments under Related Obligations and Credit Issuers thereunder and that it will not take or effect any action which would cause a default thereunder or impair such rights. The City assumes and agrees to perform all of the covenants and other obligations of the Authority under the Indenture, excepting only any approvals or consents required to be given by the Authority thereunder, and those covenants contained in the Indenture which are not within the control of the City.

**Provisions Related to Tax-Exemption**

Each of the City and the Authority covenants that it, with respect to any Obligations which are initially issued with the expectation that the interest thereon will be federally tax-exempt: (i) will neither make nor instruct the Trustee to make any investment or other use of the proceeds of the Obligations, the interest on which is intended to be excludable from gross income of the Holders thereof, which would cause such Obligations to be "arbitrage bonds" (as defined in Section 148(a) of the Code); (ii) will comply with the requirements of the Code throughout the term of such Obligations so that the interest on such Obligations shall be excludable from gross income for federal income tax purposes; and (iii) will not apply the proceeds of such Obligations in such a manner as would result in the loss of the exclusion of interest on such Obligations from gross income of the Holders for federal tax purposes. The City further covenants that it will calculate and pay directly to the United States the amount of arbitrage rebate with respect to any such Obligation payable to the United States Treasury under the Code. The Authority agrees to cooperate with the City's undertaking to comply with the arbitrage rebate rules.

**Events of Default**

Each of the following shall constitute an Event of Default under the Service Agreement: (a) the failure of the City to make any payment to the Trustee of the Service Fee due; (b) the failure of the City to make any other payment or to perform any other covenant, condition or agreement in the Service Agreement on its part to be performed; and (c) if the City proposes or makes an assignment for the benefit of creditors or a composition agreement with all or a material part of its creditors, or a trustee, receiver, executor, conservator, liquidator, sequestrator or other judicial representative, similar or dissimilar, is appointed for the City or any of its assets or revenues, or there is commenced any proceeding in liquidation, bankruptcy, reorganization, arrangement of debts, debtor rehabilitation, creditor adjustment or insolvency, state or federal, by or against the City and if such is not vacated, dismissed or stayed on appeal within 60 days (provided that any such assignment, agreement, appointment or proceeding commenced under the First Class City Revenue Bond Act or the Municipal Utility Inventory and Receivables Financing Act, and/or any acceleration of the payment obligations in respect of any bonds, notes or other evidence of indebtedness issued under either aforementioned act, shall not be an Event of Default under the Service Agreement).

**Notice of Defaults; Opportunity to Cure Such Defaults**

No default described under clause (b) of the preceding paragraph shall constitute an Event of Default under the Service Agreement until actual notice of such default by registered or certified mail shall be given to the City by the Authority or the Trustee and the City shall have had 30 days after receipt of such notice to correct the default and shall not have corrected it; provided, however, if the default cannot be corrected within such 30-day period, it shall not constitute an Event of Default under the Service Agreement if corrective action is instituted by the City within the period and diligently pursued until the default is corrected.

**Remedies**

If any Event of Default under the Service Agreement shall occur and be continuing, the Authority (or the Trustee as assignee of the Authority) may at its option exercise any one or more of the following remedies: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Authority, and require the City to perform its duties and obligations under the Service Agreement; (b) by action or suit in equity require the City to account as if it were the trustee of an express trust for the Authority; or (c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Authority. In no event (including an acceleration of the Authority's payment obligations under the Obligations or with respect to any Related Obligations or Credit Facility Payment Obligation) shall the due dates for payments of the Service Fee be accelerated.

**Termination**

The Service Agreement shall terminate on such date as the principal of and interest on all Obligations and all other amounts required under the Indenture to be paid and all other expenses payable by the City under the Service Agreement shall have been paid (or provision for such payment shall have been made as provided in the Indenture) and all other conditions of the Service Agreement and the Indenture shall have been fully satisfied.

**Amendments and Supplements**

The City and the Authority may enter into any written amendments or supplements to the Service Agreement as shall not adversely affect the rights of or the security of the Holders of the Obligations or persons entitled to payments on Related Obligations, only for the following purposes: (i) to cure any ambiguity, defect, or inconsistency or omission therein or in any amendment or supplement thereto; (ii) to grant to or confer upon the Authority or the Trustee any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon the Authority or the Trustee; (iii) to reflect a change in applicable law; (iv) as appropriate in connection with the issuance of Additional Obligations; or (v) to provide terms not inconsistent with the Indenture or the Service Agreement; provided, however, that the Service Agreement as so amended or supplemented shall provide at least the same security for Holders of the Obligations and persons entitled to payments on Related Obligations as the Service Agreement in its existing form.

All other amendments must be approved by the Trustee and, to the extent required by the Indenture, by the Holders of the Obligations or other persons entitled to payments on Related Obligations, in the manner as is set forth in the Indenture.

Any amendment or supplement to the Service Agreement (other than an amendment or supplement described in clauses (i) through (v) above under this caption) shall be approved by ordinance of the City Council and a copy of any such amendment or supplement, together with a copy of such ordinance, certified by the Clerk of the City Council, shall be filed with the Trustee.

## CERTAIN 2017 BOND INSURER PROVISIONS

The Indenture and the Service Agreement contain certain provisions for the benefit of AGM which govern during such time as the Policy is in effect and AGM is not in default of its obligations thereunder, notwithstanding anything to the contrary set forth in the Indenture or Service Agreement.

AGM shall be deemed to be the sole Holder of the Insured 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 Insured Bonds are entitled to take pursuant to the provisions of the Indenture summarized under the sub-captions “Events of Default and Remedies” and “The Trustee” under the caption “THE INDENTURE” above pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

The maturity of Insured Bonds shall not be accelerated without the consent of AGM and in the event the maturity of the Insured Bonds is accelerated, AGM 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).

Any amendment, supplement, modification to, or waiver of, the Indenture, the Service Agreement or any other transaction document, including any underlying security agreement, that requires the consent of Holders of the Obligations or adversely affects the rights and interests of the Insurer shall be subject to the prior written consent of AGM.

**APPENDIX E**

**PROPOSED FORM OF APPROVING OPINIONS OF CO-BOND COUNSEL**

August __, 2017

RE: PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT
$52,910,000 City Service Agreement Revenue Bonds
(City of Philadelphia Affordable Housing Preservation Programs Project), Series 2017

TO THE PURCHASERS OF THE BONDS:

We have served as Co-Bond Counsel to the Philadelphia Authority for Industrial Development (the "Authority") in connection with the issuance of $52,910,000 aggregate principal amount of its City Service Agreement Revenue Bonds (City of Philadelphia Affordable Housing Preservation Programs Project), Series 2017 (the "2017 Bonds"). The 2017 Bonds are being issued under and pursuant to the Pennsylvania Economic Development Financing Law, as amended (the "Act"), and a Trust Indenture dated as of August 1, 2017 (the "Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and pursuant to a resolution of the Authority adopted on June 6, 2017, authorizing the issuance of the 2017 Bonds (the "Resolution").

The 2017 Bonds will bear interest at fixed rates and will be issued only as fully registered bonds in denominations of $5,000 and any integral multiples of $5,000 in excess thereof. The 2017 Bonds are subject to redemption as described in the Indenture.

The 2017 Bonds are being issued to finance a project (the "Project") consisting of (a) payment of certain costs of the City's affordable housing preservation programs as further described in the Ordinance (as defined herein); and (b) payment of costs of issuance of the 2017 Bonds and the costs of credit enhancement.

Pursuant to a Service Agreement dated as of August 1, 2017 (the "Service Agreement") between the Authority and The City of Philadelphia, Pennsylvania (the "City"), the City will pay to the Trustee, as assignee of the Authority, service fee payments sufficient to pay, among other things, debt service on the 2017 Bonds when due and payable. Under the Indenture, the Authority has assigned to, and granted to the Trustee a security interest in, all of the right, title and interest of the Authority in and to, among other things, such service fee payments.

The City Council of the City by Ordinance (Bill No. 161014), approved by the Mayor of the City on December 8, 2016 (the "Ordinance"), authorized and approved, among other things, the execution and delivery of the Service Agreement and approved the issuance by the Authority of Obligations (as defined in the Ordinance) for the purposes further described in the Ordinance.

We have examined the proceedings relating to the authorization and issuance of the 2017 Bonds, including, among other things: (a) the Act, and the Articles of Incorporation and By-Laws of the Authority; (b) a certified copy of the Resolution; (c) executed counterparts of the Indenture and the Service Agreement or certified copies thereof; (d) a certified copy of the Ordinance; (e) the opinion of Philip M. Brandt, Esq., Authority Counsel and the opinion of Sozi Pedro Tulante, City Solicitor, each dated the date hereof and on each of which we have relied; (f) various certificates executed by the

Authority, the City and/or the Trustee including certificates as to the authentication and delivery of the 2017 Bonds, and a certificate with regard to Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"); (g) the Form 8038-G of the Authority with respect to the 2017 Bonds; (h) the approval of the issuance of the 2017 Bonds by the Pennsylvania Department of Community and Economic Development; (i) the agreement between the City and the Philadelphia Housing Development Corporation ("PHDC") with respect to the expenditure of the proceeds of the 2017 Bonds; and (j) such other constitutional and statutory provisions and such other agreements resolutions, certificates, instruments and documents as we have deemed necessary or appropriate in order to enable us to render the opinions set forth herein. We have also examined a fully executed and authenticated 2017 Bond, and we assume all other 2017 Bonds are in such form and are similarly executed and authenticated.

In rendering our opinion, we have assumed the accuracy of and have not undertaken to verify the factual matters set forth in such agreements, certificates and other documents which are referred to above and have relied on the covenants, warranties and representations made by the Authority, the Trustee, PHDC and the City in such certificates and in the Indenture, the Service Agreement and other financing documents.

In addition, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity with originals of all documents submitted to us as copies and the authenticity of certificates of public officials. We have also assumed that the Indenture has been duly authorized by the Trustee and is a legally binding obligation of, and enforceable in accordance with its terms against, the Trustee.

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

1. The Authority is validly existing under the Act and has the power to issue the 2017 Bonds for the purpose of financing the Project.

2. The 2017 Bonds have been duly authorized, executed and delivered by the Authority, are entitled to the benefit and security of the Indenture, and are valid and binding special limited obligations of the Authority, payable as to principal, interest and all other obligations thereunder solely from, and enforceable only against, the revenues and receipts derived from the Trust Estate (as defined in the Indenture which includes the Revenues described therein), except as such enforcement may be limited by laws relating to bankruptcy, insolvency, reorganization, receivership, arrangement, moratorium and other laws affecting creditors' rights, by equitable principles, whether considered at law or in equity, and by the exercise of judicial discretion in appropriate cases.

3. The Authority has the power to enter into the Indenture and the Service Agreement, each of which has been duly authorized, executed and delivered by the Authority, and which are enforceable against the Authority in accordance with their respective terms, except as such enforcement may be limited by laws relating to bankruptcy, insolvency, reorganization, receivership, arrangement, moratorium and other laws affecting creditors' rights, by equitable principles, whether at law or in equity, and by the exercise of judicial discretion in appropriate cases.

4. The City has the power to enter into the Service Agreement, which has been duly authorized, executed and delivered by the City, and which is enforceable against the City in accordance with its terms, except as such enforcement may be limited by laws relating to bankruptcy, insolvency, reorganization, receivership, arrangement, moratorium and other laws affecting creditors' rights, by equitable principles, whether at law or in equity, and by the exercise of judicial discretion in accordance in appropriate cases.

5. Under existing laws of the Commonwealth of Pennsylvania (the "Commonwealth"), the interest on the 2017 Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2017 Bonds or the interest thereon.

6. Interest on the 2017 Bonds is excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the Authority, the City and PHDC comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2017 Bonds in order that interest thereon continues to be excluded from gross income for purposes of federal income taxation. The Authority, the City and PHDC have covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the 2017 Bonds to be includable in gross income retroactive to the date of issuance of the 2017 Bonds. Interest on the 2017 Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the 2017 Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax.

Other than as set forth in paragraphs 5 and 6 above, we express no opinion regarding state or federal tax consequences relating to the 2017 Bonds or the receipt of interest thereon.

We express no opinion herein on the adequacy, completeness or accuracy of any official statement, placement memorandum or other disclosure document pertaining to the offering of the 2017 Bonds. We also express no opinion as to the validity or enforceability of any provision which purports to require that provisions of an agreement may be amended or waived only in writing or as to the availability of specific performance or other equitable relief.

We call to your attention that the 2017 Bonds do not pledge the general credit or taxing power of the Commonwealth or any political subdivision, agency or instrumentality of the Commonwealth, nor shall the Commonwealth or any political subdivision, agency or instrumentality thereof be liable for the payment of the principal of or interest on the 2017 Bonds (other than the Authority, to the limited extent described herein).

This opinion is limited to the federal laws of the United States and the laws of the Commonwealth as in effect on the date hereof, and we express no opinion with respect to the laws of any other state or jurisdiction.

This opinion is limited to the matters expressly stated herein. No implied opinions are to be inferred to extend this opinion beyond the matters expressly stated herein. This opinion is expressed as of the date hereof, and we express no opinion as to any matter not set forth in the numbered paragraphs herein. We do not assume any obligation to update or supplement this opinion to reflect, or to otherwise advise you of, any facts or circumstances which may hereafter come to our attention or any changes in facts, circumstances or law which may hereafter occur. This opinion is rendered solely for your benefit and may be relied upon by you solely in connection with the transaction contemplated hereby and may not be relied upon by you for any other purpose, or by any other person for any purpose, in each case without our written consent.

Very truly yours,

## APPENDIX F

## FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") dated as of August 17, 2017, is entered into 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 its $52,910,000 aggregate principal amount of its City Service Agreement Revenue Bonds (City of Philadelphia Affordable Housing Preservation Programs Project), Series 2017 (the "Bonds"). Capitalized terms used in this Agreement which are not otherwise defined herein shall have the meanings given to such terms in the Official Statement or the Indenture (both as defined herein), as applicable.

The Bonds are being issued pursuant (i) the Act, (ii) the Authority Resolution, (iii) the Indenture, and (iv) the Ordinance.

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

### ARTICLE I

### The Undertaking

Section 1.1. Purpose. This Agreement is being executed and delivered by the City solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) Commencing with the Fiscal Year ending June 30, 2017, the Disclosure Representative shall deliver to the Dissemination Agent no later than February 28, 2018, and no later than each succeeding February 28 thereafter, Annual Financial Information with respect to each Fiscal Year of the City. The Dissemination Agent shall promptly upon receipt thereof file the Annual Financial Information with EMMA (as defined herein).

(b) The Dissemination Agent shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) hereof.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Disclosure Representative shall provide Audited Financial Statements, when and if available, to the Dissemination Agent. The Dissemination Agent shall promptly upon receipt thereof file such Audited Financial Statements with EMMA.

Section 1.4. Notice Events. (a) If a Notice Event occurs, the Disclosure Representative shall provide through the Dissemination Agent, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to EMMA.

(b) Any notice of a defeasance of the Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) Each Notice Event notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Notice Event notice relates or, if the Notice Event notice relates to all bond issues of the City including the Bonds, such Notice Event notice need only include the CUSIP number of the City.

(d) The Dissemination Agent shall promptly advise the City whenever, in the course of performing its duties as Dissemination Agent under this Agreement, the Dissemination Agent has actual notice of an occurrence which, if material, would require the City to provide notice of a Notice Event hereunder; provided, however, that the failure of the Dissemination Agent so to advise the City shall not constitute a breach by the Dissemination Agent of any of its duties and responsibilities under this Agreement.

Section 1.5. Additional Information. Nothing in this Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Agreement. If the City chooses to do so, the City shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

Section 1.6. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the City and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the City under such laws.

## ARTICLE II

## Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, www.emma.msrb.org) or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 1.4 hereof.

Section 2.2. Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

Section 2.3. Dissemination Agent. The City has designated the Dissemination Agent as its agent to act on its behalf in providing or filing notices, documents and information as required of the City under this Agreement. The City may revoke or modify such designation. Upon any revocation of such designation, the City shall comply with its obligation to provide or file notices, documents and information as required under this Agreement or may designate another agent to act on its behalf.

Section 2.4. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access ("EMMA") system, the current Internet Web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided on EMMA shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 2.5. Fiscal Year. (a) The City's current Fiscal Year begins July 1 and ends June 30, and the City shall promptly file a notification on EMMA, through the Dissemination Agent, of each change in its Fiscal Year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any Fiscal Year longer than 12 calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The City's and the Dissemination Agent's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied:

(1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby,

(2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances,

(3) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the same effect as set forth in clause (2) above,

(4) either (i) the City shall have delivered to the Dissemination Agent an opinion of Counsel or a determination by an entity, in each case unaffiliated with the City (such as bond counsel or the Dissemination Agent), addressed to the City and the Dissemination Agent, to the effect that the amendment does not materially impair the interests of the holders of the Bonds, or

(ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of holders of Bonds pursuant to the Indenture as in effect at the time of the amendment, and

(5) the Disclosure Representative shall have delivered copies of such opinion(s) and amendment to the Dissemination Agent. Such amendment shall be promptly filed by the Dissemination Agent on EMMA and sent to each Registered Owner.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the effect that performance by the City and the Dissemination Agent under this Agreement as so amended will not result in a violation of the Rule, and (3) the Disclosure Representative shall have delivered copies of such opinion and amendment to the Dissemination Agent. Such amendment shall be promptly filed by the Dissemination Agent on EMMA and sent to each Registered Owner.

(c) This Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff, of the SEC, and (2) the Disclosure Representative shall have delivered copies of such opinion and amendment to the Dissemination Agent. Such amendment shall be promptly filed by the Dissemination Agent on EMMA and sent to each Registered Owner.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2 hereof to the accounting principles to be followed by the City in preparing its financial statements, the Annual Financial Information for the Fiscal Year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the City to comply with the provisions of this Agreement shall be enforceable by any holder of outstanding Bonds. The holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the City or the Dissemination Agent to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Indenture and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the Commonwealth, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the Commonwealth; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the City's Comprehensive Annual Financial Report ("CAFR"), which contains the Audited Financial Statements, (ii) to the extent such information is not contained in the CAFR, the financial information or operating data with respect to the City, substantially similar to the type set forth in Tables 1-52 in APPENDIX A attached to the Official Statement (with the exception of Table 19 and Table 48), and (iii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(d) and (e) of this Agreement. As set forth in clause (i) above, Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

Annual Financial Information shall be delivered at least annually pursuant to Section 1.2(a) hereof. In connection with Section 4.1(1), it is the City's intention to satisfy all or a portion of the obligations set forth therein by submitting to EMMA (A) its CAFR and (B) to the extent not otherwise updated in the CAFR, (1) an APPENDIX A that includes annual updates to the Tables specified in clause (ii) above, or (2) if the City does not have such an APPENDIX A prepared, annual updates to the Tables specified in clause (ii) above. If at any time the City deletes, for purposes of a then-current APPENDIX A, certain financial information or operating data from APPENDIX A as attached to the Official Statement that is included in one of the Tables specified above, such deleted information will be submitted separately from the updated APPENDIX A.

The descriptions contained in Section 4.1(1)(ii) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in each affected Annual Financial Information filing in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the City, audited by such auditor as shall then be required or permitted by Commonwealth law or the City Charter. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2 hereof, the City may from time to time, if required by federal or Commonwealth legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2 hereof shall include a reference to the specific federal or Commonwealth law or regulation describing such accounting principles, or other description thereof.

(3) "City Charter" means the Home Rule Charter authorized by the General Assembly in the First Class City Home Rule Act (Act of April 21, 1949, P.L. 665, Section 17) and adopted by the voters of the City, as amended and supplemented.

(4) "Commonwealth" means the Commonwealth of Pennsylvania.

(5) "Counsel" means any nationally recognized bond counsel or counsel expert in federal securities laws.

(6) "Disclosure Representative" means 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.

(7) "GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(8) "Indenture" means the Trust Indenture, dated as of August 1, 2017, by and between the Authority and U.S. Bank National Association, as Trustee.

(9) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(10) "Notice Event" means any of the following events with respect to the Bonds, whether relating to the City or otherwise:

(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 of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to rights of Bondholders, if material;

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

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the 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.

(11) "Official Statement" means the Official Statement dated August 3, 2017 of the City relating to the Bonds.

(12) "Registered Owner" or "Registered Owners" means the person or persons in whose name a Bond is registered on the books of the Authority maintained by the Trustee in accordance with the Indenture. For so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, the term "Registered Owner" or "Registered Owners" also means and includes, for the purposes of this Agreement, the owners of book-entry credits in the Bonds evidencing an interest in the Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book-entry credits in the 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 Agreement.

(13) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(14) "SEC" means the United States Securities and Exchange Commission.

(15) "Securities Depository" means The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or any successor thereto appointed pursuant to the Indenture.

(16) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

(17) "Underwriters" means the financial institutions named on the cover of the Official Statement.

ARTICLE V

Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of the Dissemination Agent. The Dissemination Agent shall have only such duties under the Agreement as are specifically set forth in this Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct in the performance of its duties hereunder. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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.

THE CITY OF PHILADELPHIA, PENNSYLVANIA

By:______________________________
Name: Rob Dubow
Title: Director of Finance

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Dissemination Agent

By:______________________________
Name:
Title:

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## APPENDIX G

## BOOK-ENTRY ONLY SYSTEM

### General

*The information set forth herein concerning The Depository Trust Company, New York, New York ("DTC") and the book-entry system described below has been extracted from materials provided by DTC for such purpose, is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority, the City, the Trustee, or the Underwriters. The websites referenced below are included for reference only and the information contained therein is not incorporated by reference in this Official Statement.*

DTC will act as securities depository for the 2017 Bonds under a book-entry system with no physical distribution of the 2017 Bonds made to the public. The 2017 Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the 2017 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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, as amended. DTC holds and provides asset servicing for over 3.5 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 the 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2017 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 2017 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2017 Bonds, except in the event that use of the book-entry system for the 2017 Bonds is discontinued.

To facilitate subsequent transfers, all 2017 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 2017 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2017 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 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 2017 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2017 Bonds, such as redemptions, defaults and proposed amendments to the bond documents. For example, Beneficial Owners of 2017 Bonds may wish to ascertain that the nominee holding the 2017 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 Trustee and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2017 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant of such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2017 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 Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and redemption price of, and interest on, the 2017 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC (or its nominee), the Authority, the City or any Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and redemption price of, and interest on, the 2017 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

**THE AUTHORITY, THE CITY, THE TRUSTEE, AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO ITS PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO BENEFICIAL OWNERS OF THE 2017 BONDS (A) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE 2017 BONDS, OR (B) CONFIRMATION OF OWNERSHIP INTERESTS IN THE 2017 BONDS, OR (C) REDEMPTION OR OTHER NOTICES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH ITS PARTICIPANTS ARE ON FILE WITH DTC.**

**NONE OF THE AUTHORITY, THE CITY, THE TRUSTEE, OR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR: (A) SENDING TRANSACTION STATEMENTS; (B) MAINTAINING, SUPERVISING OR REVIEWING THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (C) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE 2017 BONDS; (D) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED TO BE GIVEN TO HOLDERS OR OWNERS OF THE 2017 BONDS; (E) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF 2017 BONDS; OR (F) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE 2017 BONDS.**

**Discontinuation of Book-Entry Only System**

DTC may discontinue providing its services as depository with respect to the 2017 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2017 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2017 Bond certificates will be printed and delivered.

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# APPENDIX H

## SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY MUNICIPAL

# MUNICIPAL BOND INSURANCE POLICY



ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

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

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

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

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

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

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

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

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



ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)

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PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT • City Service Agreement Revenue Bonds (City of Philadelphia Affordable Housing Preservation Programs Project), Series 2017



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