Book-Entry Only

RATINGS: Moody's: "A2" (stable outlook)
S&P: "A" (stable outlook)
Fitch: "A" (stable outlook)
See "Ratings" herein

In the opinion of Co-Bond Counsel, interest on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, except as to interest on any Bond during any period such Bond is held by a person who is a "substantial user" of the facilities refinanced by the Bonds or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), subject to the condition described in "TAX MATTERS" herein. Interest on the Bonds is treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. Under the Code, interest on the Bonds may be subject to certain other taxes affecting corporate holders of the Bonds. Under the laws of the Commonwealth of Pennsylvania, the Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and the Pennsylvania corporate net income tax. For a more complete discussion, see "TAX MATTERS" herein.

$97,780,000
CITY OF PHILADELPHIA, PENNSYLVANIA
AIRPORT REVENUE REFUNDING BONDS,
SERIES 2015A (AMT)

Dated: Date of Delivery **Due:** June 15, as shown on inside cover

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

The Bonds The City of Philadelphia, Pennsylvania (the "City"), a corporation and body politic and City of the First Class existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth") is issuing the above-referenced bonds (the "Bonds") for the benefit of the Airport System owned by the City and operated by the Division of Aviation of the City's Department of Commerce.

Purpose The Bonds, together with other available moneys, are being issued for the purpose of providing funds to (i) currently refund all of the City's outstanding Airport Revenue Bonds, Series 2005A, as more fully described herein under "PLAN OF FINANCE – Refunded Bonds" (the "Refunded Bonds"), and (ii) pay the costs of issuance of the Bonds.

Security **THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY OF PHILADELPHIA PAYABLE SOLELY FROM THE PLEDGED AMOUNTS (AS DESCRIBED HEREIN). THE BONDS ARE NOT SECURED BY A PLEDGE OF THE FULL FAITH, CREDIT OR TAXING POWER OF THE CITY. THE BONDS DO NOT CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY, OR CREATE A LIEN AGAINST ANY PROPERTY OF THE CITY OTHER THAN THE PLEDGED AMOUNTS.**

Redemption The Bonds are subject to optional redemption prior to maturity. See "DESCRIPTION OF THE BONDS – Optional Redemption of the Bonds".

Interest Payment Dates Interest on the Bonds is payable semiannually on each June 15 and December 15, commencing December 15, 2015.

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

Delivery Date It is expected that the Bonds will be available for delivery to The Depository Trust Company ("DTC") on or about September 3, 2015.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the 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 Bonds.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Saul Ewing LLP and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, Co-Bond Counsel. Certain legal matters relating to disclosure will be passed upon for the City by Nixon Peabody LLP, New York, New York, and Turner Law, P.C., Philadelphia, Pennsylvania, Co-Disclosure Counsel. Certain legal matters will be passed upon for the City of Philadelphia by the City Solicitor. Certain legal matters will be passed upon for the Underwriters by their Co-Underwriters' Counsel, Duane Morris LLP and Ahmad Zaffarese LLC, both of Philadelphia, Pennsylvania.

RBC Capital Markets **Siebert Brandford Shank & Co., L.L.C.**

Barclays **CastleOak Securities, L.P.** **Goldman, Sachs & Co.**

Dated: August 26, 2015

$97,780,000
CITY OF PHILADELPHIA, PENNSYLVANIA
AIRPORT REVENUE REFUNDING BONDS,
SERIES 2015A (AMT)

MATURITY SCHEDULE

Maturity Date (June 15)	Principal Amount	Interest Rate	Price	Yield	CUSIP** 717817
2016	$4,120,000	4.00%	102.708	0.53%	RV4
2017	3,135,000	4.00	105.343	0.97	RW2
2018	3,255,000	4.00	107.241	1.34	RX0
2019	3,390,000	5.00	112.274	1.64	RY8
2020	3,560,000	5.00	113.862	1.95	RZ5
2021	3,735,000	5.00	114.714	2.27	SA9
2022	3,920,000	5.00	114.900	2.59	SB7
2023	4,120,000	5.00	115.437	2.78	SC5
2024	4,325,000	5.00	115.923	2.93	SD3
2025	4,540,000	5.00	116.199	3.07	SE1
2026	4,765,000	5.00	114.741*	3.23	SF8
2027	5,005,000	5.00	113.931*	3.32	SG6
2028	5,260,000	5.00	113.127*	3.41	SH4
2029	5,515,000	5.00	112.418*	3.49	SJ0
2030	5,800,000	5.00	111.715*	3.57	SK7
2031	2,190,000	4.00	99.185	4.07	SR2
2031	3,900,000	5.00	111.017*	3.65	SL5
2032	6,365,000	4.00	98.790	4.10	SM3
2033	6,625,000	5.00	110.152*	3.75	SN1
2034	6,955,000	5.00	109.808*	3.79	SP6
2035	7,300,000	5.00	109.551*	3.82	SQ4

* Priced at the stated yield to the June 15, 2025 optional redemption date at a redemption price of 100% of the principal amount of such Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

** 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 Capital IQ, a division of McGraw-Hill Financial, Inc. The CUSIP numbers listed above are being provided solely for the convenience of the holders of the Bonds only at the time of issuance of the Bonds and the City 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 Bonds as a result of various subsequent actions including but not limited to, a refunding in whole or in part of the 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 Bonds.

THE CITY OF PHILADELPHIA, PENNSYLVANIA

MAYOR
HONORABLE MICHAEL A. NUTTER

MAYOR'S CHIEF OF STAFF
Everett A. Gillison

MAYOR'S CABINET

Richard Negrin, Esq. .... Managing Director
Rob Dubow .... Director of Finance
Shelley R. Smith. .... City Solicitor
Alan Greenberger .... Deputy Mayor for Planning and Economic Development and Commerce Director
Susan Kretsge .... Deputy Mayor for Health and Opportunity
Michael DiBerardinis .... Deputy Mayor for Environmental and Community Resources
Desiree Peterkin Bell .... Director of Communications and Strategic Partnerships/City Representative
Lori A. Shorr, Ph.D .... Chief Education Officer
Tumar Alexander .... First Deputy Chief of Staff
Adel Ebeid .... Chief Information Officer
Katherine Gajewski .... Director of Sustainability
Eva Gladstein .... Executive Director, Mayor's Office of Community Engagement & Opportunity
Helen Haynes .... Chief Cultural Officer
Amy L. Kurland .... Inspector General
Stephanie Tipton .... Acting Chief Integrity Officer
Michael Resnick .... Director of Public Safety
Robert Murken .... Director of Legislative and Government Affairs
David G. Wilson .... First Deputy Managing Director
Maia Jachimowicz .... Director of Policy

City Treasurer
Nancy E. Winkler

City Controller
Alan L. Butkovitz

PHILADELPHIA DEPARTMENT OF COMMERCE
DIVISION OF AVIATION

Mark Gale .... Chief Executive Officer
Rochelle L. Cameron .... Chief Operating Officer
Keith J. Brune .... Deputy Director of Aviation – Operations and Facilities
Diego Rincón .... Deputy Director of Aviation – Capital Development
James Tyrrell .... Deputy Director of Aviation — Property Management and Business Development
Tracy S. Borda .... Acting Deputy Director of Aviation – Finance & Administration

FINANCIAL ADVISORS
Frasca & Associates, LLC
Public Financial Management, Inc.

FISCAL AGENT
U.S. Bank National Association

No dealer, broker, salesperson or other person has been authorized by 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 City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract or agreement between the City, the Underwriters and the purchasers or owners of any Bonds. The information set forth herein has been furnished by 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 City or of the Division of Aviation of the Department of Commerce or in any other matters discussed herein since the date hereof or the date as of which particular information is given, if earlier. 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 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. The offering of the Bonds is made only by means of this entire Official Statement.

The statements contained in this Official Statement, including the Appendices, and in any other information provided by the City and other parties to this transaction described herein that are not purely historical are forward-looking statements. Such forward-looking statements can be identified, in some cases, by terminology such as "projects," "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 of 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 hereof, and the City assumes no 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, including the Appendices, and such variations may be material, which could affect the ability to fulfill some or all of the obligations under the Bonds.

The Underwriters (who have provided this sentence for inclusion herein) have reviewed the information in this Official Statement, including the Appendices, in accordance with, and as a part of, their respective 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.

In connection with the offering of the Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time without prior notice. The Underwriters may offer and sell the Bonds to certain dealers at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters without prior notice.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other Securities Exchange, nor have the Ordinances been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts.

THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT; ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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.

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 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.

Issuer:	The City of Philadelphia, Pennsylvania (the "City"), a corporation and body politic and City of the First Class existing under the laws of the Commonwealth of Pennsylvania, for the benefit of the Airport System owned by the City and operated by the Division of Aviation of the City's Department of Commerce.
Bonds Offered:	$97,780,000 aggregate principal amount of Airport Revenue Refunding Bonds, Series 2015A (the "Bonds").
Maturities:	The Bonds mature on the dates and in the principal amounts set forth on the inside cover page hereof.
Interest Payment Dates:	Interest on the Bonds is payable semiannually on each June 15 and December 15, commencing December 15, 2015.
Use of Proceeds:	The Bonds, together with other available moneys, are being issued for the purpose of providing funds to (i) currently refund all of the City's Outstanding Airport Revenue Bonds, Series 2005A, as more fully described herein and (ii) pay the costs of issuance of the Bonds. See "PLAN OF FINANCE – Refunded Bonds" herein.
Redemption:	The Bonds are subject to optional redemption prior to maturity. See "DESCRIPTION OF THE BONDS – Optional Redemption of the Bonds" herein.
Security and Sources of Payment:	Pursuant to the General Ordinance (as defined herein), the City has covenanted that the Bonds, together with all other parity Airport Revenue Bonds (as defined herein) issued under and outstanding or subject to the General Ordinance, are and will be equally and ratably secured by a lien on and security interest in (i) Project Revenues (as defined herein); (ii) amounts payable to the City under a Qualified Swap; (iii) all amounts on deposit in or credited to the Aviation Funds (including the Parity Sinking Fund Reserve Account), except for amounts deposited into any Non-Parity Sinking Fund Reserve Subaccount; and (iv) proceeds of the foregoing (the amounts described in subsections (i) through (iv) are sometimes hereinafter referred to, collectively, as the "Pledged Amounts"). THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM THE PLEDGED AMOUNTS. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE FULL FAITH, CREDIT OR TAXING POWER OF THE CITY. THE BONDS DO NOT CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY, OR CREATE A LIEN AGAINST ANY PROPERTY OF THE CITY OTHER THAN THE PLEDGED AMOUNTS. See "SECURITY FOR THE BONDS" herein.
Parity Sinking Fund Reserve Account:	The City is required to maintain an aggregate balance in the Parity Sinking Fund Reserve Account for all Airport Revenue Bonds which are to be secured by the Parity Sinking Fund Reserve Account equal to the lesser of (a) the greatest amount of Debt Service Requirements on Airport Revenue Bonds payable in any one fiscal year, determined as of any particular date, or (b) the maximum amount permitted by the Internal Revenue Code of 1986, as amended (the "Code"), to be maintained without yield restriction for bonds the interest on which is not includable in gross income for Federal income tax purposes; provided, however, that additional Airport Revenue Bonds may be secured by a Non-Parity Sinking Fund Reserve Account under certain circumstances. See "SECURITY FOR THE BONDS – Sinking Fund Reserve Account" herein.

Rate Covenant:	The City covenants with the holders of the Airport Revenue Bonds that it will, at a minimum, impose, charge and recognize as revenues in each fiscal year such rentals, charges and fees as shall, together with that portion of the Aviation Operating Fund balance attributable to Amounts Available for Debt Service and carried forward at the beginning of such fiscal year and together with all other Amounts Available for Debt Service to be received in such fiscal year, be equal to not less than the greater of: (a) the sum of: (i) all Net Operating Expenses payable during such fiscal year; (ii) 150% of the amount required to pay the Debt Service Requirements during such fiscal year; (iii) the amount, if any, required to be paid into the Sinking Fund Reserve Account during such fiscal year; and (iv) the amount, if any, required to be paid into the Renewal Fund during such fiscal year; or (b) the sum of: (i) all Operating Expenses payable during such fiscal year, and (ii) (A) all Debt Service Requirements during such fiscal year, (B) all Debt Service Requirements during such fiscal year in respect of all outstanding General Obligation Bonds issued for improvements to the Airport System and all outstanding NSS General Obligation Bonds issued for improvements to the Airport System, (C) all the Debt Service Requirements during such fiscal year on Subordinate Obligations and any other subordinate indebtedness secured by any Amounts Available for Debt Service, (D) all amounts required to repay loans among the funds made pursuant to the General Ordinance, (E) the amount, if any, required to be paid into the Sinking Fund Reserve Account or Renewal Fund during such fiscal year, and (F) all amounts required to be paid under Exchange Agreements. See "SECURITY FOR THE BONDS – Rate Covenant" herein. See also "SECURITY FOR THE BONDS – Certain Provisions of General Ordinance Effective Upon City Election and Certain Consents" for a discussion of certain events that may allow the City to use an alternative rate covenant.
Authorized Denominations:	The Bonds will be issued as registered bonds in denominations of $5,000 or any integral multiple thereof.
Form and Depository:	The Bonds will be delivered solely in registered form under a global book-entry system through the facilities of DTC. See APPENDIX VIII.
Fiscal Agent/Registrar:	The fiscal agent for the Bonds is U.S. Bank National Association, Philadelphia, Pennsylvania.
Tax Status:	For information on the tax status of the Bonds, see the italicized language at the top of the cover page and "TAX MATTERS" herein.
Ratings:	Moody's: "A2" (stable outlook) S&P: "A" (stable outlook) Fitch: "A" (stable outlook) See "RATINGS" herein.

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OFFICIAL STATEMENT

relating to

$97,780,000
CITY OF PHILADELPHIA, PENNSYLVANIA
AIRPORT REVENUE REFUNDING BONDS,
SERIES 2015A (AMT)

INTRODUCTION

General

This Official Statement, including the cover page and appendices attached hereto, sets forth certain information in connection with the offering and sale by the City of Philadelphia, Pennsylvania (the “City”), a corporation and body politic and City of the First Class existing under the laws of the Commonwealth of Pennsylvania (the “Commonwealth”), of its Airport Revenue Refunding Bonds, Series 2015A (AMT) (the “Bonds”) in the aggregate principal amount of $97,780,000. The Bonds are authorized and are being issued under and pursuant to The First Class City Revenue Bond Act of October 18, 1972, Act No. 234 (the “Act”), the Amended and Restated General Airport Revenue Bond Ordinance, approved June 16, 1995 (Bill No. 950282), as amended and supplemented (the “General Ordinance”) and the Fourteenth Supplemental Ordinance (Bill No. 150510 approved by the Mayor on June 18, 2015) (the “Fourteenth Supplemental Ordinance” and together with the General Ordinance, the “Ordinances”). U.S. Bank National Association is serving as Fiscal Agent and Sinking Fund Depository for the Bonds (the “Fiscal Agent”). Unless otherwise indicated, capitalized terms used in this Official Statement, including the cover page hereto, are defined in APPENDIX IV —“SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS”.

THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM THE PLEDGED AMOUNTS (AS DESCRIBED HEREIN). THE BONDS ARE NOT SECURED BY A PLEDGE OF THE FULL FAITH, CREDIT OR TAXING POWER OF THE CITY. THE BONDS DO NOT CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY, OR CREATE A LIEN AGAINST ANY PROPERTY OF THE CITY OTHER THAN THE PLEDGED AMOUNTS.

The proceeds of the Bonds, together with other available moneys, are being used to (i) currently refund all of the City’s outstanding Airport Revenue Bonds, Series 2005A, as more fully described herein under “PLAN OF FINANCE – Refunded Bonds” (the “Refunded Bonds”), and (ii) pay the costs of issuance of the Bonds. See also “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Airport System

The Airport System consists of the Philadelphia International Airport (the “Airport”) and the Northeast Philadelphia Airport (the “Northeast Airport”) and is owned by the City and operated by the Division of Aviation of the City's Department of Commerce (the "Division of Aviation"). In calendar year 2014, it was ranked 19th in the United States in terms of total passengers according to Airports Council International. In fiscal year 2015 (ending June 30), the Airport served a total of approximately 30.6 million passengers. The Airport historically had served as a major hub for US Airways, Inc. ("US Airways"). On December 9, 2013, the parent companies of US Airways and the prior American Airlines merged to form the American Airlines Group, Inc. ("American Airlines"). American Airlines was awarded a single operating certificate on April 8, 2015. The Airport currently serves as a major hub for the combined American Airlines system. As set forth in the 2015 Philadelphia International Airport Market Analysis and Financial Projections (the "Market Analysis and Financial Projections"), American Airlines, together with its regional airline affiliates, accounted for approximately 11.7 million enplaned passengers, or 76.6% of the Airport's enplaned passengers, in fiscal year 2015. For a further description of the Airport System, the Service Area of the Airport and the Air Transport Industry, see "THE AIRPORT SYSTEM - Management and Description", "THE AIRPORT SYSTEM - Airport Activity and Signatory Airlines", "THE AIRPORT SERVICE REGION" and "CERTAIN INVESTMENT CONSIDERATIONS".

Brief descriptions of the Bonds, the security therefor, the Airport System and certain data about the City are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to the Act, the General Ordinance and the Fourteenth Supplemental Ordinance are qualified by reference to the definitive form of each such document in its entirety. Copies of the Act, the General Ordinance, the Fourteenth Supplemental Ordinance, and the financial statements of the City for the fiscal year ended June 30, 2014, are available from the Office of the Director of Finance, 13th Floor, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102. A copy of the financial statements of the City for the fiscal year ended June 30, 2014 may be downloaded at http://www.phila.gov/investor. The Market Analysis and Financial Projections is attached hereto as APPENDIX I. Financial statements of the Division of Aviation for the fiscal year ended June 30, 2014, are attached hereto as APPENDIX II. Certain information concerning the government of and fiscal affairs of the City is attached hereto as APPENDIX III. Summaries of legislation authorizing the issuance of the City's Airport Revenue Bonds is attached hereto as APPENDIX IV. Summaries of certain provisions of the Airport-Airline Use and Lease Agreement (the "Airline Agreement") is attached hereto as APPENDIX V. The form of approving opinion of Co-Bond Counsel that will be delivered in connection with the issuance of the Bonds is attached hereto as APPENDIX VI. The form of the Continuing Disclosure Agreement is attached hereto as APPENDIX VII. The information concerning the book-entry only system is attached hereto as APPENDIX VIII.

The City Controller has examined and expressed opinions on the basic financial statements of the City contained in the fiscal year 2014 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 fiscal year 2014 CAFR.

Under the caption "CERTAIN INVESTMENT CONSIDERATIONS" is a discussion of certain investment risks which, among others, may affect repayment of and security for the Bonds.

Certain statements contained in this Official Statement, including the Appendices, and in any other information provided by the City and other parties to this transaction described herein that are not purely historical are forward-looking statements. Readers should not place undue reliance on forward-looking statements. Actual results may vary from the projections, forecasts and estimates contained in this Official Statement, including the Appendices, and such variations may be material, which could affect the ability to fulfill some or all of the obligations under the Bonds. See "CERTAIN INVESTMENT CONSIDERATIONS – Forward Looking Statements."

CHANGES FROM THE PRELIMINARY OFFICIAL STATEMENT

The Preliminary Official Statement for the Bonds was dated August 17, 2015 (the "Preliminary Official Statement"). As indicated in the Preliminary Official Statement, the Quarterly City Manager's Report for the period ending June 30, 2015 (the "Fourth Quarter QCMR") had not yet been released, but was scheduled to be released on August 17, 2015. It was in fact released on August 17, 2015. In addition to updating the Preliminary Official Statement with the pricing information for the Bonds, including the interest rates, maturities, and redemption provisions, bonds being refunded, and schedule of debt service, the City has updated certain portions of the financial information set forth in APPENDIX III hereto to reflect the information contained in the Fourth Quarter QCMR and the Fiscal Year 2016 Adopted Budget (as defined in APPENDIX III). The principal updates to APPENDIX III can be found under the captions "DISCUSSION OF FINANCIAL OPERATIONS," "REVENUES OF THE CITY," and "EXPENDITURES OF THE CITY," as well as in Tables 1-4, 6, 11-13, 16-17, 20-21, and 42.

PLAN OF FINANCE

General

The proceeds of the Bonds, together with other available moneys, are being used to (i) currently refund all of the Refunded Bonds, as more fully described below under "Refunded Bonds," and (ii) pay the costs of issuance of the Bonds. See also "ESTIMATED SOURCES AND USES OF FUNDS" herein. The Debt Service Requirements for the Bonds in any year will not exceed the Debt Service Requirements of the Refunded Bonds in any such year.

Refunding Plan

A portion of the proceeds of the Bonds will be deposited with the Fiscal Agent on the closing date of the Bonds in an amount sufficient to pay the principal of and interest on the Refunded Bonds on their expected redemption date, which is expected to occur shortly after the date of delivery of the Bonds. Upon such deposit with the Fiscal Agent, the Refunded Bonds will no longer be deemed outstanding under the General Ordinance.

Refunded Bonds

The following table sets forth the outstanding principal amount of the maturities of the Series 2005A Bonds being refunded by the proceeds of the Bonds, the principal amount of each such maturity being refunded, the redemption price of such maturity and the applicable CUSIP numbers.

Series	Maturity (June 15)	Outstanding Principal Amount	Amount To Be Refunded	Redemption Price	CUSIP Number* 717817
2005A	2016	$3,290,000	$3,290,000	100%	H26
2005A	2017	3,425,000	3,425,000	100	JA9
2005A	2018	3,570,000	3,570,000	100	JB7
2005A	2019	3,750,000	3,750,000	100	JC5
2005A	2020	3,940,000	3,940,000	100	JD3
2005A	2021	4,135,000	4,135,000	100	JE1
2005A	2022	4,340,000	4,340,000	100	JFB
2005A	2023	4,560,000	4,560,000	100	JG6
2005A	2024	4,785,000	4,785,000	100	JH4
2005A	2025	5,025,000	5,025,000	100	JJ0
2005A	2029	22,575,000	22,575,000	100	JK7
2005A	2035	42,550,000	42,550,000	100	JL5

AUTHORIZATION FOR THE BONDS

The Bonds are authorized and are being issued under the Act, the General Ordinance and the Fourteenth Supplemental Ordinance. The Act authorizes a City of the First Class to issue revenue bonds to finance certain revenue producing projects and to refund any such bonds or other bonds of the City issued for the foregoing purposes. Such bonds must be payable solely from Pledged Amounts (as defined in the General Ordinance). All of the bonds and notes, including the City of Philadelphia, Pennsylvania, Airport Revenue Commercial Paper Notes (the "Commercial Paper Notes"), issued under the General Ordinance are referred to herein collectively as the "Airport Revenue Bonds." See APPENDIX IV — "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS — The Amended and Restated General Airport Revenue Bond Ordinance — Summary of Operative Provisions of the General Ordinance-Covenants of the City."

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* Neither the City nor the Underwriters make any representation with respect to such CUSIP numbers or undertake any responsibility for their accuracy now or at any time in the future.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated, will bear interest at the rates and will mature on the dates (subject to prior redemption) as shown on the inside cover of this Official Statement. The Bonds are secured as described herein under "SECURITY FOR THE BONDS." The Bonds have been issued in fully-registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC").

Interest on the Bonds is payable semiannually on each June 15 and December 15, beginning on December 15, 2015 (the "Interest Payment Dates"). Interest is payable on such Interest Payment Dates by check or draft mailed by the Fiscal Agent to the registered owners of the Bonds as of the close of business on the first day of the month containing each such Interest Payment Date (the "Record Date") until maturity or prior redemption. Any person who is the registered owner of at least $1,000,000 principal amount of Bonds may, by written request to the Fiscal Agent, at least three days before the Record Date in connection with which such request is made, request that interest be paid by wire transfer to an account at a financial institution in the United States as may be specified in such written request. The principal or redemption price of the Bonds is payable at the principal Philadelphia corporate trust office of the Fiscal Agent upon surrender of the Bonds.

Book-Entry Only System

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

When the book-entry system is in effect, payments relating to, and transfers of, Beneficial Owner's interests in the Bonds will be accomplished by book entries made by DTC and, in turn, by DTC Participants who act on behalf of the Beneficial Owners. See APPENDIX VIII – "BOOK-ENTRY ONLY SYSTEM."

Optional Redemption of the Bonds

The Bonds maturing on and after June 15, 2026, are subject to redemption prior to maturity in whole at any time or in part from time to time (and if in part, in such order of maturity as the City may direct and within a maturity by lot) on and after June 15, 2025, at the redemption price of 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption.

Notice of Redemption

As provided more fully in the General Ordinance and in the forms of the Bonds, notice of redemption of such Bonds shall be given by the Fiscal Agent by mailing a copy of the redemption notice by first class mail, postage prepaid, to each Holder of Bonds to be redeemed at such Holder's registered address as it appears in the Bond Register, not less than 30 or more than 60 days prior to the redemption date. Each notice shall be given in the name of the City and shall contain the CUSIP number, and, in the case of partial redemption of any Bonds, the certificate numbers and the respective principal amounts of the Bonds to be redeemed, the publication date, the redemption date, the redemption price and the name and address of the redemption agent, and shall further identify the Bonds by date of issue, interest rate and maturity date. Failure to mail any notice or any defect in a mailed notice or in the mailing thereof in respect of any notice shall not affect the validity of the redemption proceedings.

If at the time of mailing notice of redemption the City shall not have deposited with the Fiscal Agent moneys sufficient to redeem the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the redemption moneys with the Fiscal Agent not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited. Notice having been given, irrevocable instructions having been delivered to the Fiscal Agent to pay the refunded Bonds or portions thereof and funds having been deposited in the Sinking Fund in accordance with the requirements of the General Ordinance, all interest on the Bonds called for redemption shall cease to accrue from the date fixed for redemption.

ESTIMATED SOURCES AND USES OF FUNDS

Estimated Sources of Funds	
Principal Amount of the Bonds	$97,780,000.00
Net Original Issue Premium	10,459,295.15
Other Available Moneys	9,338.50
Total Sources of Funds	$108,248,633.65
Estimated Uses of Funds	
Refunding Deposit	$107,048,301.93
Costs of Issuance*	1,200,331.72
Total Uses of Funds	$108,248,633.65

* Includes underwriters' discount, printing costs, rating agency fees, legal and financial advisory fees and other expenses.

SECURITY FOR THE BONDS

Pledge of Project Revenues and Funds

Pursuant to the General Ordinance, the City has covenanted that the Bonds, together with all other parity Airport Revenue Bonds issued under and outstanding or subject to the General

Ordinance, are and will be equally and ratably secured by a lien on and security interest in (i) Project Revenues (as defined below); (ii) amounts payable to the City under a Qualified Swap; (iii) all amounts on deposit in or credited to the Aviation Funds (including the Parity Sinking Fund Reserve Account), except for amounts deposited into any Non-Parity Sinking Fund Reserve Subaccount; and (iv) proceeds of the foregoing (the amounts described in subsections (i) through (iv) are sometimes herein referred to, collectively, as the "Pledged Amounts"). See APPENDIX IV — "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS — The Amended and Restated General Airport Revenue Bond Ordinance — Summary of Operative Provisions of the General Ordinance Pledge of Revenues; Grant of Security Interest; Limitation on Recourse."

To the extent that the Fiscal Agent maintains such Pledged Amounts, the Fiscal Agent shall hold and apply the Pledged Amounts in trust, for the equal and ratable benefit and security of all Holders of parity Airport Revenue Bonds issued under or subject to the General Ordinance. The General Ordinance provides that such Pledged Amounts may also be pledged for the benefit of a letter of credit issuer, municipal bond insurance provider, standby purchaser, swap provider or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price of and interest on any series of Airport Revenue Bonds on an equal and ratable basis with Airport Revenue Bonds.

With respect to the PFC-Pledge Bonds only, "Pledged Amounts" additionally include PFC Revenues, as hereinafter described.

THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM THE PLEDGED AMOUNTS. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE FULL FAITH, CREDIT OR TAXING POWER OF THE CITY. THE BONDS DO NOT CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY, OR CREATE A LIEN AGAINST ANY PROPERTY OF THE CITY OTHER THAN THE PLEDGED AMOUNTS.

Definition of Project Revenues

The General Ordinance defines Project Revenues to include all of the revenues, rents, rates, tolls or other charges imposed upon all lessees, occupants and users of the Airport System and all moneys received by or on behalf of the City from all sources during any fiscal year (except as hereinafter excluded) from or in connection with the ownership, operation, improvements and enlargements of the Airport System, or any part thereof and the use thereof including, without limitation, revenues pledged or appropriated for the benefit of the Airport System, all rentals, rates, charges, landing fees, use charges, concession revenues, income derived from the City's sale of services, fuel, oil, and other supplies or commodities and all other charges received by the City or accrued by it from the Airport System, and any investment income realized from the investment of the foregoing, except as provided below, and all accounts, contract rights and general intangibles representing the Project Revenues, all consistently determined in accordance with the accrual basis of accounting adjusted to meet particular requirements of the Airline Agreements (if any of the Airline Agreements are in effect) and the General Ordinance. As more fully described herein under "SOURCES OF PROJECT

REVENUES UNDER THE GENERAL ORDINANCE – Airport-Airline Use and Lease Agreement," a new Airline Agreement became effective as of July 1, 2015.

Project Revenues as defined in the preceding paragraph shall not include the following:

(a) any and all Passenger Facility Charges (unless otherwise provided in a Supplemental Ordinance) or any taxes which the City may from time to time impose upon users of the Airport System,

(b) any governmental grants and contributions in aid of capital projects,

(c) such rentals as may be received pursuant to Special Facility Agreements for Special Purpose Facilities,

(d) proceeds of the sale of Bonds and any income realized from the investment of proceeds of the sale of Bonds maintained in the Aviation Capital Fund and income realized from investments of amounts maintained in the Renewal Fund and Sinking Fund Reserve Account,

(e) except as required by applicable laws, rules or regulations, net proceeds from the sale of Airport assets, including the sale or transfer of all or substantially all of the assets of the Airport System under Section 9.01 of the General Ordinance unless the Division of Aviation determines to include any such net proceeds as Project Revenues and such determination is evidenced by written notification by the City to the Fiscal Agent,

(f) proceeds of insurance or eminent domain (other than proceeds that provide for lost revenue due to business interruption or business loss), and

(g) net amounts payable to the City under a Qualified Swap (other than termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap).

City May Pledge Passenger Facility Charges Revenues

Under federal law, the City is permitted under certain circumstances to include PFC Revenues (hereinafter defined) in pledged airport revenues. However, the pledge of PFC Revenues is limited to the allowable costs of approved PFC projects ("PFC-Eligible" projects) and may not be used to pay debt service on any bonds issued to finance projects that are not PFC-Eligible projects.

The City may pledge PFC Revenues pursuant to a Supplemental Ordinance and such PFC Revenues shall constitute Pledged Amounts; provided, however, that if as a result of applicable law, rules and regulations, such PFC Revenues may only be pledged to secure one or more specified series of Airport Revenue Bonds, Pledged PFC Revenues and proceeds thereof shall constitute Pledged Amounts solely with respect to such series of Airport Revenue Bonds; provided, further, that PFC Revenues shall not constitute Pledged Amounts or Amounts

Available for Debt Service unless the City first receives written confirmation from all Rating Agencies then rating any Airport Revenue Bonds outstanding under the General Ordinance, that the pledge of PFC Revenues, in and of itself, will not result in a downgrade, suspension or withdrawal of the rating on any outstanding Airport Revenue Bonds, without taking into account Airport Revenue Bonds the rating on which is based upon a Credit Facility for such Airport Revenue Bonds, provided that if all outstanding Airport Revenue Bonds are rated based upon a Credit Facility, then PFC Revenues may be pledged only upon receipt by the City of written consent by the providers of such Credit Facilities. See "CAPITAL IMPROVEMENT PROJECTS AT THE AIRPORT — Funding Sources for Airport System Capital Projects — Passenger Facility Charges" for additional information concerning the impact of federal law on the City's ability to collect and pledge, respectively, PFCs and PFC Revenues. See also "CERTAIN INVESTMENT CONSIDERATIONS – Passenger Facility Charge Revenues."

The City was permitted to, and did, pledge PFC Revenues to secure payment of the PFC-Pledge Bonds listed above under "INTRODUCTION – Outstanding and Additional Indebtedness."

"PFC Revenues" means PFCs paid to the City as a result of enplanements at the Airport, together with investment earnings thereon.

"Pledged PFC Revenues" means the PFC Revenues pledged by the City pursuant to a Supplemental Ordinance; to the extent available to the City in an aggregate amount not exceeding PFC-eligible debt service on the 1998B Bond, 2010D Bonds, 2011A Bonds and any additional Airport Revenue Bonds that are hereinafter issued for PFC-Eligible projects that by Supplemental Ordinance, are entitled to the same lien on the PFC Revenues.

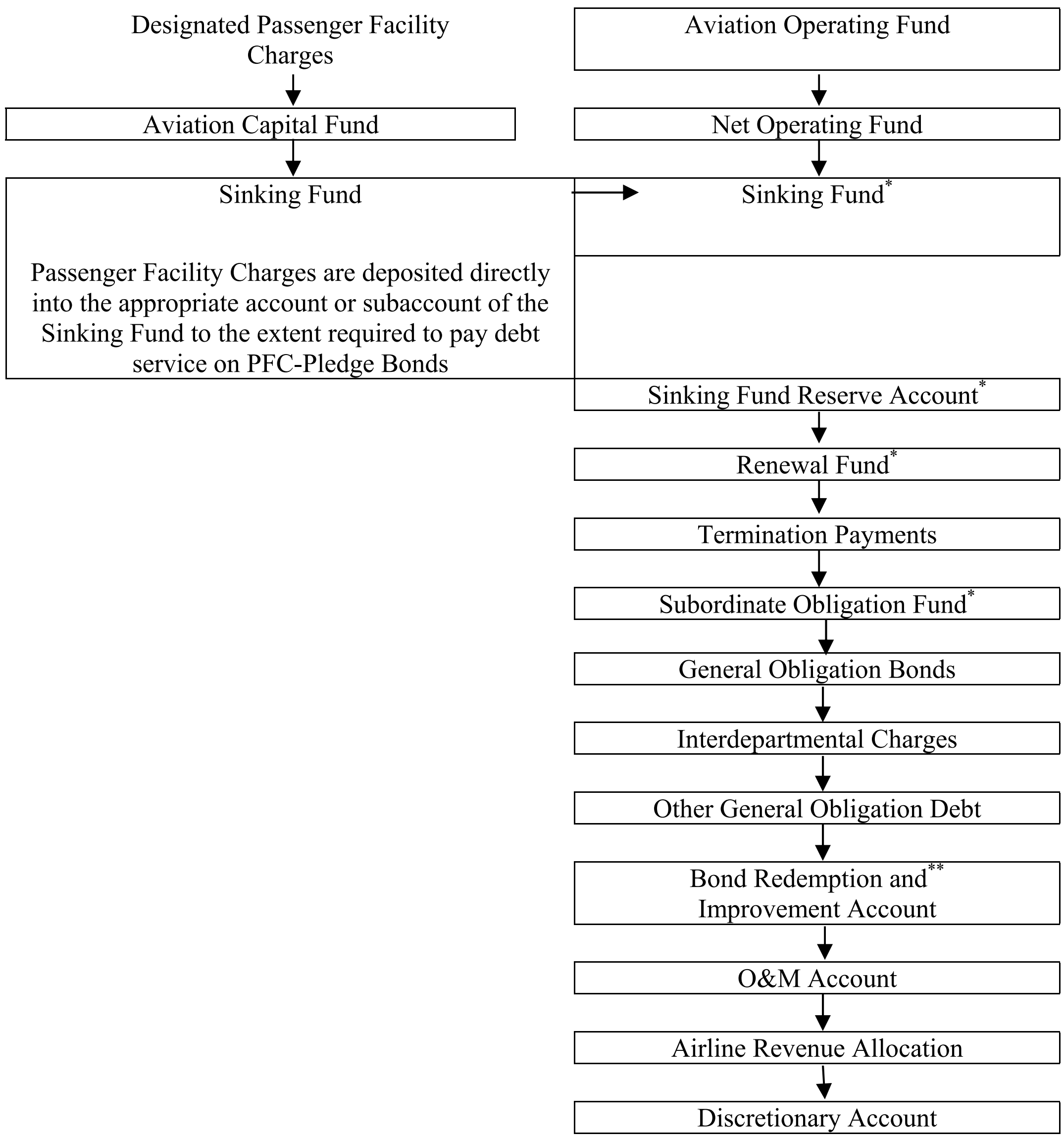
The 1998B Bond has a first lien on all PFC Revenues up to an amount in any year equal to the PFC Revenues pledged to the 1998B Bond in such year. Only one $5,000 1998B Bond remains outstanding. All remaining PFC-Pledge Bonds (including additional Airport Revenue Bonds that are hereafter issued for PFC-Eligible projects that, by Supplemental Ordinance, are entitled to the same lien on the PFC Revenues) are secured on an equal and ratable basis, without preference or priority, by a second lien on the PFC Revenues subordinate to the outstanding 1998B Bond. The City may issue Airport Revenue Bonds or other obligations that are also secured by PFC Revenues on a subordinate basis to the 1998B Bond and on a parity with the 2010D Bonds and the 2011A Bonds, subject to the terms and conditions of a Supplemental Ordinance.

At the time when there is no 1998B Bond outstanding, the remaining PFC-Pledge Bonds and any future Airport Revenue Bonds that are issued for PFC-Eligible projects (to the extent the City pledges PFC Revenues pursuant to a Supplemental Ordinance) will share a first priority parity lien with respect to all Pledged PFC Revenues up to an amount in any year equal to the PFC Revenues pledged for such PFC-Eligible projects.

Flow of Funds and Application of Project Revenues

The following is a diagram showing the flow of funds under the General Ordinance. A more complete description of the flow of funds follows the diagram.

FLOW OF FUNDS[+]



[+] The information contained here is intended as a summary of the application of Project Revenues. For a more detailed description of the flow of funds interested investors should review the Amended and Restated General Airport Revenue Bond Ordinance and the Airline Agreement.

* Fund or Account held by the Fiscal Agent.

** Any amounts remaining in the Aviation Operating Fund following any transfer then required to be made pursuant to subparagraphs (a)-(i) in the text following this chart, may be used at the written direction of the City for any Airport System purposes. In the Airline Agreement, the City has provided its written direction to use such remaining amounts as provided in subparagraphs (j)-(m) in the text following this chart.

The priority and application of Project Revenues under the terms of the General Ordinance and other amounts received which relate to the Airport System into the Aviation Funds are set forth below:

Under the provisions of the General Ordinance, the City is required to deposit all Project Revenues and other amounts received which relate to the Airport System into the Aviation Funds. The Aviation Funds are to be held separate and apart from all other funds and accounts of the City and the Fiscal Agent and the funds and accounts therein shall not be commingled with or loaned or transferred among themselves or to any other funds or accounts of the City (except for transfers between City funds which are expressly permitted by the General Ordinance). Amounts on deposit in the Aviation Operating Fund shall be applied by the City or the Fiscal Agent, as the case may be, in the following order of priority:

(a) To pay such sums constituting Net Operating Expenses in a timely manner.

(b) For deposit in the appropriate accounts of the Sinking Fund, the amount necessary to provide for the timely payment of the Debt Service Requirements.

(c) For deposit in the Sinking Fund Reserve Account or the appropriate subaccount thereof, the amount, if any, required to eliminate any deficiencies therein; provided, however, in the event there are insufficient amounts available to replenish all of the accounts or subaccounts within the Sinking Fund Reserve Account, the amount to be deposited in each Sinking Fund Reserve Account or subaccount shall be determined by dividing the Sinking Fund Reserve Requirement on the Outstanding Bonds secured thereby by the sum of the Sinking Fund Reserve Requirements on all Bonds Outstanding under the General Ordinance and multiplying that result by the total amount available to be deposited under this clause (c).

(d) For deposit in the Renewal Fund the amount, if any, required to eliminate any deficiency therein, and to pay amounts due and payable under Exchange Agreements.

(e) To pay termination amounts to a Qualified Swap Provider due as a result of the termination of a Qualified Swap and termination amounts, if any, payable to JP Morgan Chase Bank — New York with respect to Payments upon Early Termination on the Interest Rate Swap Transaction effective June 15, 2005.

(f) For deposit in the Subordinate Obligation Fund (i) the amount necessary to provide for the timely payment of the principal or redemption price of and interest on Subordinate Obligations, (ii) on or before the dates that other payments are due under any credit facility, liquidity facility or swap agreement constituting Subordinate Obligations, to deposit the amount necessary to make such payments, (iii) forward to the paying agent in respect of bond anticipation notes (payable by exchange for, or out of the proceeds of the sale of Subordinate Obligations) the amount necessary to provide for the timely payment of interest thereon (to the extent not capitalized), and (iv) deposit in the applicable subaccount of the Sinking Fund Reserve Account for a series of Subordinate Obligations the amounts, if any, required to eliminate any deficiency in such account.

(g) To pay to the City the amount necessary to provide for the timely payment of the principal or redemption price of and interest on General Obligation Bonds.*

(h) To pay any Interdepartmental Charges.

(i) To pay to the City the amount necessary to provide for the timely payment of the principal or redemption price of and interest on NSS (non-self-sustaining) General Obligation Bonds.*

Any amounts remaining in the Aviation Operating Fund following any transfer then required to be made pursuant to subparagraphs (a)-(i) above, may be used at the written direction of the City for any Airport System purposes. In the Airline Agreement, the City has provided its written direction to use such remaining amounts as provided in subparagraphs (j)-(m) below.

So long as any Bonds or bonds are outstanding, the deposit and application of Project Revenues for each fiscal year during the term of the Airline Agreement shall be governed by the General Ordinance. The City is expressly permitted in the General Ordinance to use amounts remaining in the Aviation Operating Fund following any transfers pursuant to subparagraphs (a)-(i) above for the Bond Redemption and Improvement Requirement, the O&M Requirement, the Airline Revenue Allocation and City Revenue Allocation (as defined in the Airline Agreement). Pursuant to Section 4.06 of the General Ordinance, any amounts remaining in the Aviation Operating Fund following any transfer then required to be made pursuant to subparagraphs (a)-(i) above may be used for any Airport System purposes at the written direction of the City. The City has directed that such amounts remaining will be applied or credited in the following manner:

(j) Bond Redemption and Improvement Account. In accordance with the provisions of the General Ordinance and the Airline Agreement, amounts on deposit in the Bond Redemption and Improvement Account are available for use by the City for the payment of deficiencies with respect to the Debt Service Requirements and the Sinking Fund Reserve Requirement, as provided under the General Ordinance. If (i) no such deficiencies exist, (ii) the City is not in default under the General Ordinance and (iii) a Majority-in Interest of the Eligible Signatory Airlines, determined pursuant to the Airfield Area MII Formula, mutually agree (whose agreement will not be unreasonably withheld), then the Division of Aviation may use such amounts for: repair, renewals, replacements or alterations to the Airport System, redemption of Bonds, costs of Capital Projects or equipment, purchase of Bonds, arbitrage rebate pursuant to Section 148(f) of the Code or for any lawful Airport System purposes.

In accordance with the provisions of the General Ordinance and the Airline Agreement, the balance of moneys on deposit in the Bond Redemption and Improvement Account shall equal the "Bond Redemption and Improvement Requirement." The Bond Redemption and

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* No such general obligation debt of the City is currently outstanding.

Improvement Requirement shall mean an amount not to exceed the lesser of (1) the amount of Debt Service Reserve Surety Bonds fulfilling the City's Sinking Fund Reserve requirements, or (2) twenty-five percent (25%) of the Debt Service Requirement. At the termination of the Airline Agreement, it is the City's intention to retain the balance in the Bond Redemption and Improvement Account in an Airport related account with substantially the same purpose.

(k) O&M Account. The O&M Account is available for use by the City for the payment of Operating Expenses in the City's sole discretion in the event the then current Airport Revenues allocated to Operating Expenses in the Annual Budget are deemed to be insufficient.

(l) Airline Revenue Allocation. For each fiscal year during the term of the Airline Agreement, the Airline Revenue Allocation shall be equal to fifty percent (50%) of the prior fiscal year's total net revenue from the Outside Terminal Areas Cost Center reduced by an amount of up to $7,000,000, to the extent net revenue from the Outside Terminal Areas Cost Center equals or exceeds $7,000,000.

(m) Discretionary Account. Following any and all transfers required by subparagraphs (a)-(l) above, any amounts remaining in the Aviation Operating Fund, less the Airline Revenue Allocation shall be deposited in the Discretionary Account to be used at the written direction of the City for any Airport System purposes.

Application of PFC Revenues

The PFCs shall be deposited, upon receipt, in the Aviation Capital Fund; the amount of the PFC Revenues pledged to the PFC-Pledge Bonds shall, subject to the transfer first to the Sinking Fund for the 1998B Bond, shall be transferred therefrom, at least semiannually, and deposited in the Sinking Fund for PFC-Pledge Bonds; such PFC's deposited into the Sinking Fund for the PFC-Pledge Bonds (other than the 1998B Bond) are on parity with the PFC's deposited into the Sinking Fund for the other PFC-Pledge Bonds (other than the 1998B Bond).

Sinking Fund Reserve Account

Under the General Ordinance, the City is required to maintain a parity Sinking Fund Reserve Account within the Sinking Fund known as the Parity Sinking Fund Reserve Account. The City is required to maintain an aggregate balance in the Parity Sinking Fund Reserve Account for all Airport Revenue Bonds which are to be secured by the Parity Sinking Fund Reserve Account, equal to the lesser of (a) the greatest amount of Debt Service Requirements on Airport Revenue Bonds payable in any one fiscal year, determined as of any particular date, or (b) the maximum amount permitted by the Internal Revenue Code of 1986, as amended (the "Code"), to be maintained without yield restriction for bonds the interest on which is not includable in gross income for Federal income tax purposes; provided, however, that additional Airport Revenue Bonds may be secured by a Non-Parity Sinking Fund Reserve Account under certain circumstances. See APPENDIX IV — "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS — The Amended and Restated General Airport Revenue Bond Ordinance — Summary of Operative Provisions of the General Ordinance — Establishment of Funds and Accounts."

In the event that the moneys in the Debt Service Account of the Sinking Fund are insufficient to pay as and when due, the principal of (and premium, if any) or interest on any Airport Revenue Bonds or other obligations payable from the Debt Service Account then due (including any amounts payable out of the Sinking Fund under Swap Agreements), the Fiscal Agent is authorized and directed (i) with respect to Airport Revenue Bonds secured by the Parity Sinking Fund Reserve Account, to withdraw an amount equal to the deficiency from the Parity Sinking Fund Reserve Account, and use such amount to pay debt service on the Airport Revenue Bonds secured thereby, and (ii) with respect to Airport Revenue Bonds secured by a Non-Parity Sinking Fund Reserve Subaccount, to withdraw an amount equal to the deficiency from such Non-Parity Sinking Fund Reserve Subaccount and use such amount to pay debt service on the Airport Revenue Bonds secured thereby. If by reason of such withdrawal or for any other reason there is a deficiency in the Sinking Fund Reserve Account or any subaccount thereof, the City has covenanted to restore such deficiency promptly from Project Revenues, in no event later than the next interest payment date for Airport Revenue Bonds outstanding under the General Ordinance.

Any moneys in the Sinking Fund Reserve Account or any subaccount thereof in excess of the applicable Sinking Fund Reserve Requirement shall be transferred on an annual basis to the Debt Service Account of the Sinking Fund at the written direction of the City.

Under the General Ordinance, in lieu of the required deposits into the Sinking Fund Reserve Account, the City may cause to be deposited in such Account an unconditional and irrevocable surety bond, an insurance policy or an irrevocable letter of credit in the required amount; provided that such surety bond, insurance policy or irrevocable letter of credit, or the issuer thereof (as applicable), at least meets the credit ratings threshold prescribed in the General Ordinance.

As of July 1, 2015, the Parity Sinking Fund Reserve Requirement was $114,006,555, of which $43,395,664 was funded with cash or cash equivalents and $70,610,891 with Credit Facilities, as follows:

- Upon issuance and delivery of the 1998B Bond, the City delivered to the Fiscal Agent a reserve fund surety policy issued by Financial Guaranty Insurance Company and reinsured by MBIA Insurance Corporation ("MBIA") to satisfy the Parity Sinking Fund Reserve Requirement. The City delivered to the Fiscal Agent on June 9, 2008, an irrevocable transferable letter of credit in the current principal amount of $27,953,667.43, which was issued by Wells Fargo Bank, N.A. to satisfy a portion of the Parity Sinking Fund Reserve Requirement. The Fiscal Agent may draw on such letter of credit only if the Fiscal Agent has made demand for payment to MBIA under the MBIA surety policy and MBIA has failed to honor the demand for payment. As extended, such Letter of Credit expires June 6, 2018.

- The City delivered to the Fiscal Agent on December 23, 2008, a Sinking Fund Reserve Letter of Credit in the principal amount of $18,690,850 issued by TD Bank, N.A. ("TD Bank"), which was deposited into the Parity Sinking Fund Reserve

Account to satisfy the Parity Sinking Fund Reserve Requirement. As extended, such Letter of Credit expires December 23, 2019.

- Upon issuance and delivery of the 2007A Bonds and the 2007B Bonds, the City delivered to the Fiscal Agent a reserve fund surety policy issued by Financial Security Assurance Inc. to satisfy the Parity Sinking Fund Reserve Requirement. In July 2009, Financial Security Assurance Inc. was acquired by Assured Guaranty Ltd. ("Assured") and as a result of the acquisition, the reserve fund surety policy (the "Original Surety Policy") was assigned to and assumed by Assured. The City delivered to the Fiscal Agent on January 30, 2015, an irrevocable transferable letter of credit in the amount of $23,966,374 issued by TD Bank, which was deposited into the Parity Sinking Fund Reserve Account to satisfy a portion of the Parity Sinking Fund Reserve Requirement. The Fiscal Agent may draw on such letter of credit only if the Fiscal Agent has made demand for payment to Assured under the Assured surety policy and Assured has failed to honor the demand for payment. Such letter of credit expires July 29, 2016.

Upon issuance and delivery of the Bonds, the Parity Sinking Fund Reserve Requirement will be reduced to $113,360,580, of which $42,749,689 will be funded with cash or cash equivalents and $70,610,891 with Credit Facilities.

Renewal Fund

The General Ordinance establishes a renewal fund (the "Renewal Fund") in the amount of $2,500,000 (the "Renewal Fund Requirement"). The amount required to be maintained in the Renewal Fund may be increased or decreased from time to time as determined by the Consultant. The Renewal Fund is maintained by the Fiscal Agent and, under the General Ordinance, may be used (i) to pay the cost of major repairs, renewals and replacements of Airport System facilities for purposes of meeting unforeseen contingencies and emergencies arising from the operation of the Airport System, (ii) to pay expenses chargeable as Operating Expenses if Project Revenues are insufficient, for whatever reason, to cover such Operating Expenses in any fiscal year, (iii) to pay debt service on Airport Revenue Bonds, or (iv) to repay any loan from the Aviation Capital Fund to the Aviation Operating Fund, in accordance with the requirements of the General Ordinance. If the amount in the Renewal Fund drops below the Renewal Fund Requirement, such deficiency must be restored by regular quarterly deposits from Project Revenues which shall not be required to exceed the total of $500,000 in any fiscal year. If the moneys and investments in the Renewal Fund are in excess of the Renewal Fund Requirement, the amount of such excess, on order of the Director of Finance, shall be paid over by the City to the Debt Service Account of the Sinking Fund, to be used and applied as are all other moneys deposited in or on deposit therein.

Rate Covenant

The City covenants with the holders of the Bonds, that it will, at a minimum, impose, charge and recognize as revenues in each fiscal year such rentals, charges and fees as shall, together with that portion of the Aviation Operating Fund balance attributable to Amounts

Available for Debt Service and carried forward at the beginning of such fiscal year and together with all other Amounts Available for Debt Service to be received in such fiscal year, be equal to not less than the greater of:

(a) the sum of: (i) all Net Operating Expenses payable during such fiscal year; (ii) 150% of the amount required to pay the Debt Service Requirements during such fiscal year; (iii) the amount, if any, required to be paid into the Sinking Fund Reserve Account during such fiscal year; and (iv) the amount, if any, required to be paid into the Renewal Fund during such fiscal year; or

(b) the sum of: (i) all Operating Expenses payable during such fiscal year, and; (ii) (A) all Debt Service Requirements during such fiscal year, (B) all Debt Service Requirements during such fiscal year in respect of all outstanding General Obligation Bonds issued for improvements to the Airport System and all outstanding NSS General Obligation Bonds issued for improvements to the Airport System, (C) all the Debt Service Requirements during such fiscal year on Subordinate Obligations and any other subordinate indebtedness secured by any Amounts Available for Debt Service, (D) amounts required to repay loans among the funds made pursuant to Section 4.05(c) of the General Ordinance, (E) the amount, if any, required to be paid into the Sinking Fund Reserve Account or Renewal Fund during such fiscal year, and (F) all amounts required to be paid under Exchange Agreements.

For a further discussion of the funds and accounts, priority of payment, the Rate Covenant, the Alternative Rate Covenant which may be elected by the City, and other provisions of the General Ordinance, see APPENDIX IV — "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS —The Amended and Restated General Airport Revenue Bond Ordinance."

Certain Provisions of General Ordinance Effective Upon City Election and Certain Consents

The City may elect an alternative rate covenant in lieu of the Rate Covenant (the "Alternative Rate Covenant"), upon the conveyance of all or substantially all of the City's right, title and interest in the Airport System, the occurrence of other certain circumstances and the consent of certain parties, all as set forth in the General Ordinance. As of the date hereof, the City has no plans to elect the Alternative Rate Covenant, however, the City may elect the Alternative Rate Covenant in the future. For additional information about the City's election and calculation of the Alternative Rate Covenant, see APPENDIX IV — "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS — The Amended and Restated General Airport Revenue Bond Ordinance — Conveyance of System and Assignment, Assumption and Release of Obligations — *Alternative Rate Covenant*."

Issuance of Additional Airport Revenue Bonds

The General Ordinance permits the issuance of Additional Airport Revenue Bonds which, except as otherwise provided in the General Ordinance, will be equally and ratably secured with the Bonds and all other outstanding parity bonds issued under and/or subject to the General Ordinance.

Additional Airport Revenue Bonds may be issued under the General Ordinance to pay the costs of Projects relating to the Airport System, to reimburse the City for the prior payment of such costs, to fund any such costs for which the City shall have outstanding obligations, to refund bonds of the City previously issued for such purposes or to finance other costs relating to the Airport System permitted under the Act; provided that, among other requirements, in each case other than certain refundings of bonds (discussed herein), the City obtains reports of the Consultants stating, among other things, that:

(i) for either the immediately preceding fiscal year of the City, or any period of 12 full consecutive months during the 18-month period preceding the delivery of the Consultants' reports, the Airport System yielded pledged Amounts Available for Debt Service, sufficient to satisfy the Rate Covenant,

(ii) the Airport System will, in the opinion of the Consultant, yield pledged Amounts Available for Debt Service for each of the five fiscal years (or three fiscal years in the event that the Consultant is professionally unable to provide an opinion for a period in excess of three fiscal years) ended immediately following the issuance of the Bonds, sufficient to comply with the Rate Covenant, and

(iii) that the Airport System is in good operating condition or that adequate steps are being taken to return the Airport System to good operating condition.

For a discussion of the issuance and assumption of additional Bonds under the General Ordinance, see APPENDIX IV — "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS —The Amended and Restated General Airport Revenue Bond Ordinance — Summary of Operative Provisions of the General Ordinance — Conditions of and Provisions Relating to Issuing Bonds."

Pursuant to the General Ordinance, no consultant's report is required in the case of issuance of any series of bonds (including the issuance of the Bonds) for the purpose of refunding another series of bonds so long as the City certifies in writing that the Debt Service Requirements on the proposed refunding bonds in any year do not exceed the Debt Service Requirements on the bonds to be refunded in any such year. In connection with the issuance of the Bonds, the City will certify in writing that the Debt Service Requirements in any year on the Bonds do not exceed the Debt Service Requirements in any such year on the Refunded Bonds. As such, no consultant's report has been prepared in connection with the Bonds.

Authorization for Possible Transfer of Airport System

The General Ordinance provides that, under certain circumstances, the City has the ability to transfer the Airport System to a municipal authority created pursuant to the Municipality Authorities Act, P.L. 382, No. 164 (May 2, 1945), as amended, or to an authority created pursuant to other authorizing legislation or to another entity which will assume all of the obligations evidenced by the bonds outstanding under the Ordinances, including the Bonds. See APPENDIX IV — "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS — The Amended and Restated General Airport Revenue Bond Ordinance — Summary of Operative Provisions of the General Ordinance -- Conveyance of System and Assignment, Assumption and Release of Obligations" for a summary of the conditions which must be satisfied prior to any such transfer. The City has no plans to transfer the Airport System to a municipal authority at this time.

SOURCES OF PROJECT REVENUES UNDER THE GENERAL ORDINANCE

Airport-Airline Use and Lease Agreements

From July 1, 2007 through June 30, 2015, the City and the principal airlines serving the Airport operated under the terms of an Airport-Airline Use and Lease Agreement (the "Prior Airline Agreement") that established procedures for the annual review and adjustment of airline rentals, fees, and charges so that the Airport System yielded Amounts Available for Debt Service at least sufficient to comply with the Rate Covenant.

Beginning July 1, 2015, the City and American Airlines have operated under the terms of a new Airport-Airline Use and Lease Agreement (which is referred to herein as the Airline Agreement) to succeed the Prior Airline Agreement. The material terms of the Airline Agreement are substantially the same as the material terms of the Prior Airline Agreement. The Airline Agreement provides that it becomes effective upon execution by airlines having at least 50% of total maximum landed weight in calendar year 2014; consequently, the Airline Agreement became effective upon execution by American Airlines, the only airline to sign the Airline Agreement to date. The Airline Agreement has been sent to the other principal airlines serving the Airport for approval and execution. The Airport expects that the Airline Agreement will be signed by such other principal airlines. The Airline Agreement is scheduled to expire on June 30, 2020, and is thereafter subject to two one-year extension options.

For purposes of developing rentals, fees and charges under the Airline Agreement, the Airport System has been divided into the following cost centers to which all revenues, expenses, and debt service on Airport Revenue Bonds are allocated: Airfield Area, Terminal Area, Ramp Area, Other Buildings and Areas, Northeast Airport and Outside Terminal Area.

The procedures in the Airline Agreement for setting airline rentals, fees and charges are such as to ensure continued compliance with the Rate Covenant.

As more fully described below under "–Non-Signatory Airline Rentals, Fees, and Charges", airlines that do not sign the Airline Agreement are subject to a City regulation that would require them to pay more than the Signatory Airlines.

Certain airlines that supply regional jet service to the Signatory Airlines under the same livery as the Signatory Airline will be asked to execute an Operating License under essentially the same terms and conditions as the Airline Agreement.

Prior to and during the term of the Prior Airline Agreement, the relevant Signatory Airlines approved $1.436 billion in Capital Expenditures. Under the Airline Agreement, the Signatory Airlines approved an additional $173.25 million in Capital Expenditures and, as described below under "CAPITAL IMPROVEMENT PROJECTS AT THE AIRPORT – Capacity Enhancement Program", on or prior to December 31, 2016, the Signatory Airlines are required to approve an additional project or projects. The Airline Agreement does not limit or restrict the right of the City to implement Capital Improvement Projects within the Airport System at any time; the lack of approval of the Capital Improvement Project by a Majority-in-Interest of the Signatory Airlines ("MII Approval") after consultation with the City (other than certain exempted projects that do not require approval) prevents the City from including the cost of such Capital Improvement Project in the applicable rate base for the Airline Cost Centers during the term of the Airline Agreement. MII Approval obligates the respective Signatory Airlines to pay rentals, fees, and charges as required by the Airline Agreement to enable the City to comply with the Rate Covenant.

A summary of certain provisions of the Airline Agreement are set forth in APPENDIX V — "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE AGREEMENT". This summary is in all respects subject to and qualified by the complete, definitive form of the Airline Agreement in its entirety, copies of which are available from the Office of the Director of Finance at the address set forth under the heading "ADDITIONAL INFORMATION" herein.

Non-Signatory Airline Rentals, Fees, and Charges

If any airline enters into the Airline Agreement, then such Signatory Airline shall be governed by the rates and charges and terms and conditions as set forth in the Airline Agreement. Non-signatory Airlines rates and charges to use the Airport System are governed by the Airport Rates and Charges Regulation (the "Airport Rates and Charges Regulation"). The Airport Rates and Charges Regulation became effective June 29, 2015 and supersedes all previous rates and charges regulations.

Pursuant to the Airport Rates and Charges Regulation, Non-Signatory Airlines are required to pay amounts equal to 115% of the calculated Signatory Airline Landing Fee Rate, Terminal Rentals, International Common Use Area Fees, and Domestic Common Use Area Fees.

Certain Other Revenues

Some air carriers operating at the Airport are governed by duly promulgated regulations of the Department of Commerce of the City, rather than pursuant to written agreements. Certain of these carriers are not tenants and, whether scheduled or nonscheduled, their operations at the Airport do not warrant the undertaking of the obligations imposed upon carriers entering into written agreements. Pursuant to the Airline Agreement, rates and charges paid by such carriers may not be substantially less than the rates and charges paid by the Signatory Airlines.

Users of the Airport other than Signatory Airlines and other air carriers include providers of aviation services, such as ground handlers, fixed base operators, fuelers and in-flight kitchen operators. Concessionaires provide services and products to passengers and visitors, and include, among other things, restaurant and fast-food service, newsstands and gift shops, rental cars, taxi and limousine and other forms of ground transportation and on-Airport and off-Airport parking. See "Philadelphia Parking Authority" below. Lease and license agreements with the providers of these products and services provide the Airport with rentals and concession revenues.

All food, beverage and retail concessions in the terminal buildings are managed and operated under the Master Lease and Concession Management Agreement (the "Master Lease") between the City and MarketPlace PHL LLC ("MarketPlace") which was executed in December 2014 and became effective January 2015. The Master Lease provides for MarketPlace to develop and manage Airport concessions showcasing national brands and local Philadelphia products. The Master Lease Agreement has a seven (7) year term with two consecutive renewal terms of three (3) years and two (2) years, respectively.

Rental car companies (a) pay ground rent to the Airport on their facilities, (b) pay the Airport a privilege fee pursuant to City regulation, and (c) collect for payment to the Airport the Customer Facility Charges described below under "CAPITAL IMPROVEMENT PROJECTS AT THE AIRPORT – Funding Sources for Airport System Capital Projects – Customer Facility Charges for Rental Car Facility" pursuant to a Commonwealth law and a City enabling ordinance.

Philadelphia Parking Authority

The Philadelphia Parking Authority ("PPA") was established by an ordinance of the City of Philadelphia in 1950 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 the Airport; and to administer and enforce City on-street parking regulations for the City through an Agreement of Cooperation (the "Agreement of Cooperation") with the City.

The PPA owns and operates five parking garages at the Airport, and it also operates a number of surface parking lots at the Airport. The land on which these garages and surface lots are located is leased from the City, acting through the Department of Commerce, Division of Aviation, pursuant to a lease that extends to December 31, 2030 or such time as all bonds issued under PPA's bond indenture have been retired (the "Ground Lease"). The Ground Lease provides for payment of rent to the City (the "Rental Payment"), which is equal to gross receipts less operating expenses, debt service on PPA's bonds issued to finance improvements at the Airport and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its Airport operations, if any. The Rental Payments that were transferred from the PPA to the City's Aviation Operating Fund as rent on June 30, 2013, 2014 and 2015 were $23.9 million, $23.8 million and $27.8 million, respectively.

PPA's administrative costs are included in its operating expenses. In 1999, at the request of the Federal Aviation Administration ("FAA"), PPA and the City entered into a letter agreement (the "FAA Letter Agreement") which contained a formula for calculating PPA's administrative costs and capped such administrative costs at 28% of PPA's total administrative costs throughout all its revenue centers. (PPA owns and operates parking facilities at a number of non-Airport locations in the City. These parking facilities are revenue centers for purposes of the FAA Letter Agreement.) According to the Division of Aviation, audited financial statements of PPA submitted to the City show that PPA has been in compliance with the FAA Letter Agreement since its execution.

THE AIRPORT SYSTEM – MANAGEMENT AND DESCRIPTION

General

The Airport System consists of the Airport and the Northeast Airport, and it is owned by the City and operated by the Division of Aviation. The City is classified as a large air traffic hub by the Federal Aviation Administration (the "FAA"). In calendar year 2014, it was ranked 19th in the United States in terms of total passengers according to Airports Council International. In the fiscal year ended June 30, 2015, the Airport served a total of approximately 30.6 million passengers. Origin-destination traffic for calendar year 2014 accounted for approximately 57.4% of annual passengers, with the remaining 42.6% being passengers connecting between flights.

Management of the Airport System

The Chief Executive Officer of the Division of Aviation, Mark Gale, is responsible for the operation of the Airport System. As of June 30, 2015, there were approximately 762 (DOA employees), 154 (Police Department), 66 (Fire Department), 20 (Office of Fleet Management) and 6 (Law Department) persons employed by the City at the Airport. Fourteen additional Law Department personnel are assigned to the Airport but work elsewhere in the City.

Airport System operations are conducted under the supervision of the following members of the Division of Aviation Staff:

Mark Gale, Chief Executive Officer. Mr. Gale was appointed Chief Executive Officer ("CEO") of the Airport in December 2009. He has served the Airport for over 27 years in various capacities, including Deputy Director of Aviation for Operations and Facilities and Airport Operations Manager. As CEO, Mr. Gale serves as the City's chief representative in local, state, national and international affairs, in marketing the Airport and improving air service. In this capacity, he is responsible for directing the planning, development and administration of all the activities of the City's Division of Aviation, including both Philadelphia International Airport and Northeast Airport and the management of about 800 Airport personnel. Mr. Gale holds a Bachelor's degree in Aeronautical Studies from Embry-Riddle Aeronautical University. Mr. Gale is an accredited member in the American Association of Airport Executives ("AAAE") and also serves on AAAE's Board of Directors. Additionally, Mr. Gale currently serves on the Board of Directors for the Philadelphia Convention and Visitors Bureau, Airports Council International – North America ("ACI-NA") and the U.S. Travel Association.

Rochelle Cameron, Chief Operating Officer. Ms. Cameron was appointed Chief Operating Officer ("COO") in December 2014. She is responsible for overseeing day-to-day operations including facility operations and maintenance, information technology, asset management and planning, capital programs, security, finance and budget, property and concession management, human resources, contracts and procurement, and the disadvantaged business enterprise program. Prior to her appointment as COO, Ms. Cameron was Deputy Director of Aviation – Finance and Administration. Before joining the Philadelphia International Airport, Ms. Cameron had 13 years experience working for the Metropolitan Washington Airports Authority. Her experience also includes seven years as an active duty officer in the United States Air Force and one year as an Air Force civilian employee. Ms. Cameron holds a Bachelor of Arts degree in Political Science from the University of Notre Dame and a Masters degree in Business Administration from Auburn University at Montgomery. She is a Certified Public Accountant in the Commonwealths of Pennsylvania and Virginia, and a member of AAAE and the Government Financial Officers Association ("GFOA"). She is the Vice Chair of the Finance Committee for ACI-NA, and a member of ACI World's Economics Committee.

Keith Brune, Deputy Director of Aviation — Operations and Facilities. Mr. Brune was appointed Deputy Director of Aviation, Operations and Facilities, in October 2010. Mr. Brune is responsible for all operations, security, facilities maintenance, IT and Northeast Airport. Mr. Brune joined the Philadelphia International Airport as an Airport Operations Officer in 1991 and has held various positions including Airport Operations Superintendent, Acting Facilities Maintenance Manager, Airport Operations Manager and Acting Deputy Director, Operations and Facilities. Mr. Brune holds Bachelor of Science and Master of Aeronautical Science degrees from Embry-Riddle Aeronautical University and is an Accredited Airport Executive with the AAAE.

Diego Rincón, Deputy Director of Aviation – Capital Development. Mr. Rincón was appointed Deputy Director of Aviation, Capital Development in July 2013. He is an Accredited Airport Executive ("A.A.E.") and aviation professional with an international and domestic background in planning, engineering, program management and construction management. His experience includes over 20 years leading and contributing to major airport programs in Washington, D.C., Dallas, Texas, and Mumbai, India and he has supported airport development work in Mexico, Germany, Saudi Arabia, the United Arab Emirates, Honduras, Venezuela, Argentina, Spain, Hungary and India. He has served as a consultant and has held senior executive roles in airport management in both public and private sectors. In addition, he has direct involvement in Capital Development Program with the Airport's tenants and internal departments, ensuring safety and quality. He oversees major construction and engineering projects, introducing new, progressive approaches to engineering management and execution.

James Tyrrell, Deputy Director of Aviation — Property Management and Business Development. Mr. Tyrrell was appointed to the position of Deputy Director of Aviation, Property Management and Business Development in February 2001. Prior to his appointment, he served in various capacities including Airport's Properties Manager and as an Airport Properties Assistant. He obtained his undergraduate degree (B.S. Marketing/Management) from Saint Joseph's University. Mr. Tyrrell is directly responsible for all real estate related functions including the development, purchase, sale, use and lease of all Airport properties and facilities and also oversees air service development, food, beverage and retail concessions, rental cars and other business development activities related to and including wireless internet access, Airport advertising contracts and all airline agreements. Additionally, all business development related activities at Northeast Airport are also his responsibility. Mr. Tyrrell serves on ACI-NA's Air Cargo, Commercial Management and Business Diversity committees.

Tracy Borda, Acting Deputy Director of Aviation – Finance & Administration. Ms. Borda was appointed Acting Deputy Director of Aviation, Finance and Administration in March 2015. She is responsible for the airport's financial operations, including accounting, budget, rates and charges, debt management, grant management, capital program funding, audit, procurement, contract management, human resources, organizational training and safety, enterprise risk management and materials management. Ms. Borda joined Philadelphia International Airport in 1995 as the Internal Audit Manager and has held various positions including Assistant Director of Aviation and Airport Administrative Manager. Ms. Borda holds a Bachelor of Science degree in Finance from the Pennsylvania State University and a Masters degree in Business Administration from Temple University. She is a Certified Public Accountant in the Commonwealth of Pennsylvania, and a member of AAAE and the Finance Committee for ACI-NA.

Description of the Airport

The Airport was opened in 1940 and is owned by the City and operated by the Division of Aviation. The Airport serves residents of and visitors to a broad geographic area that includes portions of four states: Pennsylvania, New Jersey, Delaware and Maryland. The primary service region of the Airport consists of the Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Areas. See "THE AIRPORT SERVICE REGION" herein. The Airport is located partly in the southwestern section of the City and partly in the northeastern section of Delaware County, 7.2 miles from Center City, Philadelphia. It is adjacent to Interstate 95 and is served by a commuter rail line with direct service to Center City, Philadelphia, operated by the Southeastern Pennsylvania Transportation Authority ("SEPTA").

Land. The Airport contains approximately 2,410 acres, which the City owns in fee simple subject only to certain liens or encumbrances which do not interfere with the orderly operation of the Airport. On July 2, 2015, the Airport purchased an adjacent property to the airport 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, which is included in the total acreage noted previously. This property was acquired for future Airport expansion.

Airfield. The airfield consists of parallel runways 9L-27R and 9R-27L, crosswind runway 17-35 and commuter runway 8-26, together with interconnecting taxiways and aircraft parking aprons. The runway system is capable of handling the largest commercial aircraft currently operated by the Signatory Airlines. The current lengths and widths of runways comprising the runway system are set forth in the table below.

Runway	Length	Width
9R-27L	10,506'	200'
9L-27R	9,500'	150'
17-35	6,500'	150'
8-26	5,000'	150'

Passenger Terminals. The passenger terminal complex located north of the two main runways comprises seven terminal units, each providing a concourse for aircraft loading and unloading; a landside building for passenger ticketing, check-in, and security screening; and a separate baggage claim building. The landside buildings and baggage claim buildings are served by separate curbside roadway systems. The terminal complex provides a total of approximately 3.3 million square feet of space and 126 aircraft gates.

Ticketing and baggage claim operations occupy the ground level and are served by ground level roadways. Airline operational facilities and baggage make-up areas are located on the ground level of the Terminal Building and in the concourses. While airline office space is provided adjacent to ticket counter locations or in concourses, there are also offices in the connectors, the tower levels in A/B, B, and F Terminals, and the baggage claim buildings. Concessions are located throughout the post-security terminal buildings and concourses and in the baggage claim buildings. Approximately 150,880 square feet of space in the passenger terminals has been developed for concessions.

Parking and Outside Terminal Area. The Outside Terminal Area includes public parking facilities, ground transportation and rental car facilities, and an airport hotel.

Public parking facilities, which are leased to and operated by the PPA, consist of five multi-story garages and surface lots immediately north of the terminals (approximately 11,800 spaces) and a remote surface lot (approximately 7,100 spaces) served by shuttle buses.

Seven car rental brands (Alamo, Avis, Budget, Dollar, Enterprise, Hertz, and National) lease facilities and parking areas adjacent to the parking garages, and offer shuttle bus pickup and drop off service to passengers. Although the car rental concessions are physically located in the Outside Terminal Area, the majority of the revenues payable by the car rental companies are Project Revenues.

Parkway Corporation manages the Airport ground transportation dispatch system and provides for the sequencing of taxicabs and limousines in the Airport's taxicab holding area and their orderly dispatch to and from the terminal baggage claim facilities. An eight-zone system for delineating commercial traffic is in effect on the north and south sides of the baggage claim areas, which provides separate zones for SEPTA's Hi-Speed Line, rental car shuttles, parking shuttles, hotel shuttles, taxicabs, inter-terminal shuttles, limousine and shuttle van services and charter buses and courier services. The City imposes egress fees for commercial vehicles based upon the seating capacity. All commercial vehicles are subject to the fees and must pay to enter the commercial roadway at a tollbooth operated by Parkway Corporation. The only exception to the fees is for those operators who do not operate "for hire" (i.e., rental car courtesy vehicles and hotel courtesy vehicles).

Host Marriott Corporation operates a 15-story hotel adjacent to the Terminals A-B parking garage and connected to Terminal B via a skybridge with approximately 419 rooms on approximately three acres leased from the City. It features a restaurant, lounge and eleven meeting rooms, including a grand ballroom which is approximately 8,640 square feet.

General Aviation Facilities. Atlantic Aviation, a fixed-base operator located at the easternmost end of the Airport, services general aviation operations. This 29-acre facility, constructed and operated by Atlantic Aviation, opened in May 2000 with: an 8,800 square-foot terminal building; two 24,000 square-foot open hangars; a fuel farm consisting of two 20,000 gallon jet fuel tanks and one 10,000 gallon aviation gas tank; and 18 acres of ramp space.

Cargo and Other Facilities. There are six active cargo facilities located at the western end of the Airport, which include: the shared American Airlines/United Airlines building, two American Airlines buildings, two Aero Philadelphia buildings, Prologis, Inc. and Ridgely Group. UPS Air Cargo operates its east coast package handling and sorting hub from an approximately 675,000 square-foot building located at the southeastern side of the Airport.

American Airlines operates a 56,000 square foot ground service equipment facility at the west end of the Airport that handles repairs and upkeep on equipment that service American Airlines's daily arrivals and departures to and from Airport. The building achieved Leadership in Energy and Environmental Design (LEED) Silver certification. This building, which is the latest addition to the airport's green initiative, will have a direct impact on the environment in terms of reducing noise and air emissions and improving air quality.

American Airlines also operates an aircraft maintenance hangar and parking apron on 9.15 acres of land located in Cargo City. In June 2015, American Airlines opened a 24,000 square foot cold storage facility specifically designed to handle the growing demand for pharmaceutical freight and specialty cargo.

Hertz Rent-A-Car operates a maintenance facility located on 10 acres of land at the corner of 84th Street and Bartram Avenue.

Northeast Airport

Northeast Airport is located on a 1,126-acre site situated within the City limits about 10 miles by road northeast of Center City, Philadelphia, and provides for general aviation, air taxi and corporate aviation, as well as occasional military aviation use.

The Northeast Airport currently has no scheduled commercial service. In recent years, the Northeast Airport has handled approximately 75,000 general aviation operations annually. There are 85 T-hangars and nine corporate hangars in use, and six open hangars available for general aviation activities.

General aviation fuel services for both propeller and jet aircraft as well as aircraft and avionics maintenance are available. There are approximately 175 general aviation aircraft based at the Northeast Airport.

Two fixed based operators service general aviation operations at the Northeast Airport. Atlantic Aviation is located on the southwest side of the Northeast Airport. This facility consists of the following facilities: an 8,000 square-foot terminal building, four open hangars totaling a combined 73,280 square feet, 65 T-hangars, a fuel farm consisting of two 15,000 gallon tanks, and 17 acres of ramp space. The North Philadelphia Jet Center is located on the northeast side of the Northeast Airport. The Jet Center opened in 1977 and has subsequently been renovated. The Jet Center includes a two-story 8,000 square-foot terminal building, two open hangars totaling a combined 20,000 square feet, a fuel farm consisting of four 10,000 gallon fuel tanks, and 20 T-hangars.

AgustaWestland Philadelphia operates out of a 275,000 square foot facility, on a 39-acre site at Northeast Airport. The facility includes final assembly lines for the AW119Kx and AW139 helicopters, a parts supply depot for the Americas and a fully approved FAA and JAA repair station. AgustaWestland Philadelphia also performs helicopter customization, has a delivery center for AW109 Power and GrandNew aircraft, as well as providing maintenance services for customer aircraft based in the local area.

CAPITAL IMPROVEMENT PROJECTS AT THE AIRPORT

General

The Airport regularly renovates, improves and expands its facilities to improve passenger experience and meet the demands of the aviation industry. Since 2000, the Airport has constructed more than $1.5 billion of capital improvements, including new terminals, 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. The CEP will enable the Airport to enhance the Greater Philadelphia region's position by providing more efficient access and increased competitiveness. It is a multi-year endeavor, with multiple phases and timing for each development which will be closely coordinated with the airlines and other stakeholders in order to maintain operational efficiency during construction. The major elements of the CEP include expanding and reconfiguring the existing terminal complex; a new runway; two runway extensions; taxiway improvements; relocating several on and off-airport facilities to facilitate airfield improvements; a Ground Transportation Center which includes a consolidated rental car facility; cargo facility development; constructing an automated people mover (APM); and parking expansion and roadway improvements. The CEP was captured in its entirety under a FAA sponsored Airport Master Plan and subsequent Environmental Impact Study (EIS) which resulted in a FAA Record of Decision ("ROD") that was the foundation for the approval of FAA funding supporting the CEP. The ROD is available at www.faa.gov/airports/environmental/records_decision.

On July 27, 2015, the FAA issued a draft of a written reevaluation of the ROD and the related environmental impact statement due to the reconfiguration of certain parcels relating to Cargo City and the UPS facility. The draft reevaluation concludes that the preparation of a new or supplemental environmental impact statement is not necessary. The draft reevaluation must be made available to the public and resource agencies for a period of 30 days and a notice of availability must be published in the Federal Register prior to adoption by the FAA. No assurance can be given that it will be adopted as originally drafted.

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 an expansion of Terminal F; completion of Terminals D/E checked baggage inspection system; and on-going rehabilitation and repair projects.

Current Funded Capital Projects

The CEP and CIP projects with current airline or other funding approval are shown in Table 1. These projects are in various phases of planning, design, construction and completion and the project costs have been incorporated in the financial analysis included in the Market Analysis and Financial Projections. For a description of anticipated funding sources for the current capital projects, see Table 2.

Table 1
Current Approved Capital Projects
(Amounts expressed in millions)

CEP Projects		Total Project Cost
Terminal Modernization Program (Portion)	$	237.10
Runway 9R-27L (Future Runway 9C-27C) Extension and Associated Taxiways (EE & H)		193.10
Off-Airport Facility Relocation (Property Acquisition Approved)		156.15
On-Airport Facility Relocation (Portion Approved)		19.65
Land Acquisition (International Plaza and VDT)		105.86
Environmental Work (Portion of Wetlands Reclamation and Mitigation)		61.95
Centralized Maintenance Facility		10.00
Airport People Mover (Planning and Preliminary Design)		30.00
Ground Transportation Center (Includes Consolidated Rental Car Facility)		312.09
CEP Total	$	1,125.90
CIP Projects		
Major Projects:		
Terminal Expansion - Terminal F	$	160.60
Terminal Expansion - Terminals D/E (Remainder for ticketing building renovations and check baggage inspection system)		40.00
Rehabilitation & Repair Projects:		
Terminal Infrastructure Projects (Including jet bridge replacement, air handling units, baggage handling system, misc. facility rehabilitation, etc.)		220.97
Airfield Projects (Includes taxiway replacement, emergency operations center, etc.)		61.60
CIP Total	$	483.17
Total (CEP & CIP) Approved Projects	$	1,609.07

Source: City of Philadelphia, Division of Aviation

Current Funded CEP Projects

The Airport is undertaking the following CEP projects:

- Terminal Modernization Program: This program is expected to increase the capacity of various terminals and includes a redesigned and enhanced Terminal B/C ticketing area, which will include a new automated baggage handling and screening system and a new, more spacious, centralized passenger security checkpoint to provide for greater efficiency and enhanced passenger flow. Funding for planning, design and initial construction of the Terminal Modernization Program has been approved and work is in the initial planning stage.

- Runway 9R-27L Extension (future Runway 9C-27C) and Associated Taxiways (EE and H): This project will extend existing Runway 9R-27L* to the east by approximately 1,500 feet to a total length of 12,000 feet. In addition, this project includes the construction of Taxiways EE and H in order to improve the flow and sequencing of aircraft to and from Terminals E and F and reduce taxiway complexity. This project is currently under construction and scheduled for completion in 2018.

- Off-Airport Facility Relocation (Property Acquisition Approved): These projects include the relocation of the United Parcel Service (UPS) facility, the removal of the Sunoco Logistics Hog Island Wharf complex, the removal of the Consolidated Rail Corporation freight tracks (60th Street Industrial Track), and the closure of Hog Island Road from Tinicum Island Road to the Sunoco Logistics Fort Mifflin Pier. The approved portion of these projects includes the agreement with Tinicum Township for land acquisition which was reached in April of 2015.

- On-Airport Facility Relocation (Portion Approved): These projects include the relocation of the following facilities: fuel farm and pipeline, FAA facilities, fire rescue, and corporate hangars. Work on these projects is in the initial planning stages.

- Land Acquisition (International Plaza and VDT): This project includes the purchase of property adjacent to the Airport. The property includes the 27-acre International Plaza parcel as well at the 5.6-acre VDT, LLC parcel. These properties were acquired for future Airport expansion for a total of $105 million in 2014 and 2015.

- Environmental Work (Portion of Wetlands Reclamation and Mitigation): This project includes a portion of the wetlands reclamation and mitigation necessary for the CEP program. Some elements of this effort have been completed as associated with

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* Existing Runway 9R-27L will be designated as Runway 9C-27C upon the commissioning of new Runway 9R-27L that will be constructed south of the existing Runway 9R-27L's current location.

individual projects (i.e. Taxiway K extension) and others are in advanced stages of environmental due diligence.

- Centralized Airport Maintenance Facility: This project includes the construction of a new centralized airport maintenance facility and ancillary facilities. A portion of this project related to construction of a separate salt storage facility will be complete in 2015 and final design for the Centralized Maintenance Facility will be complete in 2016.

- Automated People Mover (APM): The automated people mover system will move passengers between concourses and the proposed Ground Transportation Center, Terminal G, East Satellite Regional Terminal facilities and connect to the existing SEPTA rail line. Funding approval from the airlines has been received for planning and preliminary design. This project is being planned in close coordination with and is complementary to the Terminal Modernization Program.

- Ground Transportation Center (GTC): This project will replace the current rental car facility surface lots with a new, multi-story consolidated rental car facility and integrate an APM station. This project is currently in the planning phase. Customer Facility Charge revenue is currently being collected on rental transactions and will be the source of funding for the project. Funding for this project is not subject to airline approval.

Current Funded CIP Projects

A set of CIP projects have been approved that address the on-going capital needs of Airport facilities. The following projects are significant CIP projects included in the approximately $483 million of approved CIP projects.

- Terminal F Expansion: This multi-phase project includes reconfiguring and adding approximately 80,000 square feet to Terminal F. The expansion includes a new baggage claim building on the arrivals roadway providing two claim devices; enlarged passenger holdrooms and concession areas; enlarged club room; crew lounges; and other airline operations facilities for American Airlines. The Airport completed Phase One of the Terminal F expansion project in 2014 that included an enlarged “Central Hub” to accommodate additional concession space and improve passenger flow. Phase Two of this project will provide additional capacity for passenger and baggage processing for American’s affiliate airline operations. Phase Two of this project is scheduled to be complete by spring of 2016.

- Terminals D/E Expansion: Previously completed phases of this project consist of a new 210,000 square foot multi-level connector building between Terminals D and E; a 50,000 square foot addition to the Terminal E concourse that provided three additional passenger gates; a 9,000 square foot connector building between baggage claim areas for Terminals D and E; and various renovations to areas within the two terminals and the adjacent Thermal Plant. The final phases of the project will be the activation of an in-line Explosive Detection System (EDS) and the completion of the remaining Terminal E ticket counters and airline ticket office items. This project is scheduled to be completed by the end of 2017.

- Terminal Infrastructure Projects – elements include:

    - Loading Bridge Replacement Program Phase 2: Phase 2 of the Passenger Loading Bridge Replacement Program will replace the next 13 jet bridges in Terminal B, C, and D. This project is scheduled to be complete in the fall of 2020.

    - Roof and Air Handling Unit Replacement: This project includes the replacement of existing roof and roof-top air handling units on Terminal B, C and D. This project is scheduled to be completed in the summer of 2017.

    - Baggage Handling System Upgrade Terminal A-West Sector 3 Explosive Detection System (EDS): This project will expand the Sector 3 baggage handling system to meet increased demand. This project is only for design of the checked bag inspection system (CBIS). TSA is expected to participate in a cost sharing arrangement for this project. This project is scheduled for completion in the fall of 2021 in coordination with the Terminal Modernization Program.

- Airfield Elements Include:

    - Emergency Operations Center (EOC): The Emergency Operations Center will provide a central command location for airport operations, security, and other emergency response agencies and personnel. The EOC would provide a monitoring station for all airport systems including security systems, building automation systems, supervisory control and data acquisition, and lighting controls. This project is scheduled to be complete by the end of 2020.

    - Cargo City Access Control and Special Systems: This project will expand the access control and security surveillance (ACS) system in Cargo City. This program will be delivered in phases beginning in 2017 and is scheduled to be complete at the end of 2020.

Future Capital Projects

In addition to the approved capital projects, the City has plans to pursue projects of the CEP program which will continue to improve efficiency, increase capacity, and modernize airport facilities. The City will also pursue future CIP projects to address on-going terminal and airfield improvements. The timing of these projects is not defined at this time. The Airport is evaluating the complex projects that are part of the CEP and is in discussions with the airlines and other key stakeholders regarding the phasing and timing of the projects. The costs of these projects will depend on project timing and phasing of the projects. These projects are not included in the financial analysis included in the Market Analysis and Financial Projections.

Future CEP Projects included in the FAA Record of Decision

The future CEP projects, pending airline and other funding source approval, include the following:

- Terminal Modernization Program: An additional $100-$250 million in terminal modernization funding is estimated for near-term future elements of this project. This project is one of three identified in the new Airline Use and Lease Agreement effective July 1, 2015 that requires approval action prior to the end of 2016. This project is still in the very early stages of programming and program cost estimates are expected by end of 2016.

- Airport Traffic Control Tower (ATCT): This project will relocate the existing FAA ATCT due to the construction of new Runway 9R-27L. The ATCT is one of three projects identified in the new Airline Use and Lease Agreement effective July 1, 2015, that require approval action prior to the end of 2016.

- Runway 8-26 Extension: This project extends Runway 8-26 by 2,000 feet for a total length of 7,000 feet. Initial elements of this project are subject to airline approval for up to $300 million prior to the end of 2016. The initial phases of planning, design, and construction of the extension are collectively one of three projects identified in the new Airline Use and Lease Agreement effective July 1, 2015, that require approval action prior to the end of 2016.

- New Runway 9R-27L Enabling Projects: In order to construct the new Runway 9R-27L a series of enabling projects must be completed. These projects include the relocation of the existing fuel farm and Aircraft Rescue Fire Fighting (ARFF) facilities.

- Construction of New Runway 9R-27L: This project will construct a new runway 9,103 feet long and 150 feet wide. This project will also include the construction of associated taxiway improvements and the installation of runway lighting.

- Cargo Facilities: This project will construct a new Cargo City facility with new cargo buildings, maintenance hangar(s), and other relocated facilities to the northwest corner of the Airport.

- New Terminal G: This project will construct a new terminal to the northeast of the current terminal complex. The scope and size of this project is yet to be determined.

- New East Satellite Regional Terminal: This project will construct a satellite regional terminal east of Runway 17-35. The scope and size of this project is yet to be determined.

Funding Sources for Airport System Capital Projects

Airport System Capital Projects have been financed primarily through federal and Commonwealth grants-in-aid, PFC Revenues, Customer Facility Charge (CFC) Revenues, Airport Revenue Bonds (including the Commercial Paper Notes) and general obligation bonds of the City. The Airport expects to continue to fund capital improvement projects with a combination of federal and Commonwealth grants-in-aid, PFC Revenues, CFC Revenues and proceeds from additional issues of Airport Revenue Bonds.

Airport Revenue Bonds. The financing of a portion of the capital improvements for the Airport System has been accomplished through the sale of Airport Revenue Bonds. See "INTRODUCTION – Outstanding and Additional Indebtedness" for a list of the outstanding Airport Revenue Bonds. No general obligation bonds of the City issued to finance capital improvements to the Airport System are currently outstanding or contemplated.

The financing of Capital Improvement Projects with MII Approval under the Airline Agreement allows the City to include the debt service on Airport Revenue Bonds issued for such approved projects in the rates, fees and charges paid by the Signatory Airlines. Based on current project cash flow estimates, the following table shows the current and completed Capital Projects that have received MII Approval under the Airline Agreement and the amount to be funded with Airport Revenue Bonds over the next several years. As existing or additional projects receive additional MII Approval, the amount of Airport Revenue Bonds to be issued may increase.

Table 2

Funding of Current Capital Projects as of July 1, 2015
(Amounts expressed in millions)

					Commercial Paper (CP) & Future Bonds			
CEP Projects	Total Project Cost	PFC/Grant	CFC/Other	Existing Bonds	CP to be repaid with Revenues	Proposed Series 2017	Proposed Series 2019	Proposed beyond FY 2020
Terminal Modernization Program (Portion)	$ 237.10	$ -	$ -	$37.10	$ -	$200.00	$ -	$ -
Runway 9R-27L (Future Runway 9C-27C) Extension and Associated Taxiways (EE & H)	193.10	93.40	2.32	1.00	-	96.38	-	-
Off-Airport Facility Relocation (Property Acquisition Approved)	156.15	8.80	-	-	-	-	147.35	-
On-Airport Facility Relocation (Portion Approved)	19.65	-	-	-	-	15.35	4.30	-
Land Acquisition (International Plaza and VDT)	105.86	7.20	-	-	17.28	-	81.38	-
Environmental Work (Portion of Reclamation and Wetlands Mitigation)	61.95	-	-	-	-	-	-	61.95
Centralized Maintenance Facility	10.00	-	-	2.00	-	8.00	-	-
Airport People Mover (Planning and Preliminary Design)	30.00	-	-	-	-	-	30.00	-
Ground Transportation Center (Includes Consolidated Rental Car Facility)	312.09	-	312.09	-	-	-	-	-
Total	$1,125.90	$109.40	$314.41	$40.10	$17.28	$319.73	$263.03	$61.95
CIP Projects								
Major Projects:								
Terminal Expansion - Terminal F	$ 160.60	$ 33.60	$ -	$ 127.00	$ -	$ -	$ -	$ -
Terminal Expansion - Terminals D/E (Remainder for ticketing building renovations and check baggage inspection system)	40.00	40.00	-	-	-	-	-	-
Rehabilitation & Repair Projects:								
Terminal Infrastructure Projects (Including jet bridge replacement, air handling units, baggage handling system, misc. facility rehabilitation, etc.)	220.97	30.48	-	33.50	8.82	64.72	49.45	34.00
Airfield Projects (Inc. taxiway replacement, emergency operations center)	61.60	-		4.00	1.00	30.10	7.50	19.00
Total	$ 483.17	$104.08	$ -	$164.50	$ 9.82	$ 94.82	$ 56.95	$ 53.00
Current Capital Projects	**$1,609.07**	**$213.48**	**$314.41**	**$204.60**	**$27.10**	**$414.55**	**$319.98**	**$114.95**
Completed Capital Projects previously funded with Commercial Paper	17.00				2.00	15.00		
	$1,626.07	$213.48	$314.41	$204.60	$29.10	$429.55	$319.98	$114.95

Source: City of Philadelphia, Division of Aviation

Federal Grants-in-Aid. The Airport and Airway Improvement Act of 1982 created the Airport Improvement Program (the "AIP"), which is administered by the FAA and funded by the Airport and Airway Trust Fund. This fund is financed by various federal aviation user taxes. Grants are available to airport operators across the country in the form of "entitlement" funds and "discretionary" funds. Entitlement funds are apportioned annually based upon cargo volume and enplaned passengers, and discretionary funds are available at the discretion of the FAA based upon a national priority system. Actual entitlement funds will vary with the actual number of passenger enplanements and cargo volume, with total appropriations for the AIP and with any revision of the existing statutory formula for calculating such funds. In addition, pursuant to the PFC Act (defined below) and the Aviation Investment and Reform Act for the 21st Century, an airport's annual Federal entitlement grants are reduced by 50% following the imposition of PFCs at the $3.00 level and by 75% following imposition at the $4.00 or $4.50 level.

In September 2011, the FAA issued a Letter of Intent ("LOI"), which was amended in August 2012 and June 2013, which will contribute $466.5 million over the life of the Airport's CEP. Presently, the Airport has eight active AIP grants totaling $92,488,634 for land acquisition and airfield projects. During fiscal year 2014, the City received $4.4 million passenger entitlement grants, $1.5 million in cargo entitlement grants, and $23 million in discretionary grants, for a total of $28.9 million. In fiscal year 2015, a total of $14.0 million in LOI funding has been obtained and $8 million has been requested. Going forward, if LOI funds are not available, the City would use Airport discretionary funds, defer projects, or issue additional Airport Revenue Bonds.

Commonwealth Grants-in-Aid and Other Assistance. The Pennsylvania Department of Transportation (PennDOT), through Act 164 of 1984, provides grants for airport improvements. The Division of Aviation has received approximately $800,000 per year for the last 20 years for improvements at the Airport and approximately $25,000 per year in matching AIP funds for improvements at the Northeast Airport. These grants have been used for airfield improvements. In addition, five grants totaling $10 million were issued through the State Capital Budget from 2009 to 2014 for the Airport. The Airport has also received three grants totaling over $1.58 million from the Pennsylvania Department of Environmental Protection (PADEP), under the Alternative Fuels Incentive Grant (AFIG) program, for building re-charging stations and pre-conditioned air units. The recharging stations are used by the airlines to charge newly-purchased electric tugs and electric loaders to replace diesel powered tugs and loaders. The pre-conditioned air units are used on jetways so that airplanes do not have to use their diesel powered auxiliary units. Both of these systems lower polluting emissions at the Airport.

Customer Facility Charges For Rental Car Facility. On November 25, 2013, the Governor of Pennsylvania signed a comprehensive transportation bill into law which permitted the Airport to establish and collect a customer facility charge ("CFC") of not more than $8 per rental day on customers renting motor vehicles from Airport rental car operators. The proceeds of the CFC collections are to be used solely for the planning, development, financing, construction and operation of the Centralized Ground Transportation Center Project referenced in the CEP, which includes the consolidated rental car facility, the current estimated cost of which is approximately $312 million. Rental car operators began collecting CFCs in May 2014 at $8 per rental day from their customers and remitting them to the Airport. As of June 30, 2015, CFC collections total approximately $30.8 million.

Passenger Facility Charges. Passenger Facility Charges (“PFCs”) are authorized by the Aviation Safety and Capacity Expansion Act of 1990, as amended (the “PFC Act”), and implemented by the FAA pursuant to published regulations issued with respect to the PFC Act (the “PFC Regulations”). The PFC Act permits a public agency, such as the City, which controls certain commercial service airports to charge each paying passenger enplaning at the airport (subject to certain limited exceptions) a PFC of up to $4.50. Pursuant to the PFC Act and to the City’s current approvals from the FAA, the City may, with certain exceptions, charge each paying passenger who enplanes at the Airport a PFC of $4.50. The annual amount of PFCs payable to the City depends upon the number of passenger enplanements at the Airport. The PFC Act requires air carriers and their agents to collect the PFCs and to remit to the City once each month the proceeds of such collections, less a $0.11 handling fee and without interest earned prior to such remittance.

PFC Revenues are to be used to finance FAA-approved airport-related projects that preserve or enhance capacity, safety or security of the national air transportation system, reduce noise from an airport that is part of the system or provide an opportunity for enhanced competition between or among air carriers or foreign air carriers. Examples of projects that could meet those objectives include airport development or planning, airfield rehabilitation/improvements, airport noise compatibility measures, roads and access projects, and terminal development such as the planning and construction of gates and related areas that facilitate the movement of passengers and baggage.

The FAA approval provides that bond documents, such as the General Ordinance, may define pledged airport revenues in a manner that would include PFC Revenues. However, the FAA approval also provides that the use of PFC Revenues is limited to the allowable costs of approved PFC projects (“PFC-Eligible” projects) and may not be used to pay debt service on any bonds issued to finance non-PFC-Eligible projects. The use of PFC Revenues deposited in the special PFC account in the Aviation Capital Fund for any other project would require special FAA approval. Under the General Ordinance, PFC Revenues do not constitute Project Revenues, but may be included in Amounts Available for Debt Service to the extent that such PFC Revenues have been pledged pursuant to a Supplemental Ordinance.

Use of PFC Revenues. The City has, since September 1992, been authorized by the FAA to impose a PFC on eligible passengers enplaned at the Airport and to use PFC Revenues to pay the costs of various FAA-approved projects. The PFC was initially $3.00 per enplaned passenger and, effective April 1, 2001, was increased to $4.50 per enplaned passenger. The City currently has authority from the FAA to impose the PFC and to collect PFC Revenues, inclusive of investment earnings, in an aggregate amount of $1.455 billion. The estimated PFC charge expiration date is November 2019. Additionally, the City is awaiting FAA approval on its new PFC application in the amount of $109.1 million. With FAA approval of the new application, authorization to collect PFCs will be $1.56 billion and the estimated expiration date will be May 2021.

As of June 30, 2015, PFC Revenues received by the City, including investment earnings, totaled approximately $1.106 billion, of which approximately $961 million had been expended on approved project costs, including debt service of PFC-Pledge Bonds. Further detail on the City's PFC Revenues is provided in Table 3.

The City is authorized to use PFC Revenues to pay all or a portion of the PFC-Eligible Debt Service Requirements of the PFC-Pledge Bonds in an aggregate amount not exceeding the PFC-Eligible Debt Service Requirements of the PFC-Pledge Bonds. The City pledges PFC Revenues, to the extent annually available to the City, equal to the total amount of the PFC-Eligible Debt Service on the PFC-Pledge Bonds over the life of such PFC-Pledge Bonds. The amount of such PFC Revenues to be applied toward debt service on any annual basis will be determined year-to-year by the City.

See "CERTAIN INVESTMENT CONSIDERATIONS – Passenger Facility Charge Revenues."

Table 3
Annual PFC Revenues
Philadelphia International Airport
(Fiscal Years Ending June 30)

Fiscal Year	**Collections**	**Interest**	**Total Revenues**
1993-2005	$444,260,950	$23,261,367	$467,522,316
2006	62,165,176	3,252,682	65,417,858
2007	65,328,768	5,047,045	70,375,813
2008	70,120,974	5,098,760	75,219,734
2009	60,898,941	1,886,741	62,785,682
2010	61,696,738	353,391	62,050,129
2011	62,338,653	191,092	62,529,745
2012	59,885,669	325,805	60,211,475
2013	58,495,629	414,832	58,910,461
2014	60,377,268	329,507	60,706,774
2015	60,644,306	436,648	61,080,954
Total	**$1,066,213,072**	**$40,597,870**	**$1,106,810,941**

Expenditures through June 30, 2015..$961,962,399
PFC Account Balance..$144,848,542

Source: City of Philadelphia, Division of Aviation

THE AIRPORT SYSTEM – AIRPORT ACTIVITY AND SIGNATORY AIRLINES

Aviation Activity at the Airport

As of July 2015, the airlines serving the Airport provided a total of 558 average daily departures to 132 destinations, including 95 domestic and 37 international destinations.

Table 4 provides the air carriers serving the Airport as of July 2015.

Table 4
Airlines Serving the Airport as of July 2015

Legacy/Mainline Airlines	**Low-Cost Carriers**	**Regional Airlines**
Alaska Airlines	Frontier	Air Wisconsin (d/b/a US Airways Express)
American Airlines	JetBlue Airways	Compass Airlines (d/b/a Delta Connection)
Delta Air Lines	Southwest Airlines	Envoy Air (d/b/a American Eagle)
United Airlines	Spirit Airlines	Endeavor Air (d/b/a Delta Connection)
		GoJet Airlines (d/b/a Delta Connection and United Express)
Foreign-Flag Airlines	**All-Cargo Carriers**	Piedmont Airlines (d/b/a US Airways Express)
Air Canada	FedEx	PSA Airlines (d/b/a US Airways Express)
British Airways	UPS Air Cargo	Republic Airlines (d/b/a US Airways Express)
Lufthansa German Airlines		Shuttle America (d/b/a Delta Connection and United Express
Qatar Airways		Trans States Airlines (d/b/a United Express)

Source: City of Philadelphia, Division of Aviation, Innovata

The Airport historically had served as a major hub for US Airways. On December 9, 2013, the parent companies of US Airways and the prior American Airlines merged to form the American Airlines Group, Inc. (referred to herein as American Airlines). American Airlines was awarded a single operating certificate on April 8, 2015. American Airlines is the principal air carrier operating at the Airport, and the Airport serves as a primary hub in American Airlines' route system. American Airlines currently leases 74 gates under the American Airlines Airline Agreement and utilizes another 17 gates on a common-use basis, for 73% of the total 126 gates at the Airport. As set forth in the Market Analysis and Financial Projections, American Airlines, together with its regional airline affiliates, accounted for approximately 11.7 million enplaned passengers, or 76.6% of the Airport's enplaned passengers, in fiscal year 2015.

Table 5 presents historical data for domestic and international enplaned passengers at the Airport and Table 6 provides enplanement activity by airline.

Enplaned passenger traffic peaked in 2008 as Southwest Airlines expanded airport operations to 71 daily flights to 20 cities. However, beginning in fiscal year 2008 and through fiscal year 2011, enplaned passenger traffic decreased an average of 0.9 percent per year reflecting the global economic recession, higher fuel prices and capacity cuts by the airlines. In fiscal year 2011, total enplaned passengers increased 2.8 percent primarily due to continued growth from US Airways.

Total enplaned passengers at the Airport decreased by 1.7 percent in fiscal year 2012 followed by an additional decrease of 0.8 percent in fiscal year 2013. During this period, US Airways' enplaned passenger traffic increased by 0.6 percent and 2.2 percent, respectively, and new entrants Alaska Airlines and Virgin America began operating at the Airport in fiscal year 2012. Southwest Airlines continued to reduce operations at the Airport during this period, with their resulting share of Airport enplaned passenger traffic decreasing from 10.9 percent in fiscal year 2011 to 9.7 percent in fiscal year 2012 to 6.9 percent in fiscal year 2013. In fiscal year 2013, Delta Air Lines added service resulting in Delta Air Lines surpassing Southwest Airlines as the second busiest airline serving the Airport.

In fiscal year 2014, enplaned passengers increased by 0.7 percent reflecting continued growth by legacy carriers American Airlines, Delta Air Lines and US Airways, declines by Southwest Airlines and United Airlines, growth by Spirit Airlines, Alaskan Airlines and JetBlue Airways and new service from Qatar Airways, which commenced daily service to Doha in April 2014.

In fiscal year 2015, enplaned passenger traffic was nearly flat with a decrease of less than 0.0 percent. Reductions in enplaned passenger traffic from the new American Airlines, Delta Air Lines, Southwest Airlines and United Airlines, as well as the suspension of Virgin America service in October 2014 were offset by increases from low cost carriers Frontier Airlines and JetBlue Airways and international service from British Airways, Lufthansa German Airlines and Qatar Airways.

Table 5
Historical Enplaned Passengers
Philadelphia International Airport
(Fiscal Years Ending June 30)

Fiscal Year	Domestic	International	Total	Total Annual Increase (Decrease)
2006	13,563,540	2,011,457	15,574,997	0.5%
2007	13,864,721	1,986,970	15,851,691	1.8
2008	13,971,056	2,081,917	16,052,973	1.3
2009	13,357,446	2,005,297	15,362,743	(4.3)
2010	13,113,239	2,080,502	15,193,741	(1.1)
2011	13,407,158	2,204,425	15,611,583	2.8
2012	13,134,251	2,209,875	15,344,126	(1.7)
2013	13,021,515	2,194,370	15,215,885	(0.8)
2014	13,059,804	2,256,249	15,316,053	0.7
2015	13,072,574	2,240,164	15,312,738	0.0
		Compound Annual Growth Rate		
2006-2015	(0.4%)	1.2%	(0.2%)	

Source: City of Philadelphia, Division of Aviation

Table 6
Historical Total Enplaned Passengers
by Airline Philadelphia International Airport
(Fiscal Year Ending June 30)

Airline [1/]	Fiscal Year 2011 Enplaned Passengers	Fiscal Year 2011 Share	Fiscal Year 2012 Enplaned Passengers	Fiscal Year 2012 Share	Fiscal Year 2013 Enplaned Passengers	Fiscal Year 2013 Share	Fiscal Year 2014 Enplaned Passengers	Fiscal Year 2014 Share	Fiscal Year 2015 Enplaned Passengers	Fiscal Year 2015 Share
American/US Airways [2/]										
American Airlines	592,470	3.8%	551,081	3.6%	519,110	3.4%	551,868	3.6%	480,871	3.1%
US Airways	10,730,818	68.7%	10,795,412	70.4%	11,030,619	72.5%	11,230,061	73.3%	11,242,762	73.4%
Subtotal American/US Airways	**11,323,288**	72.5%	**11,346,493**	73.9%	**11,549,729**	75.9%	**11,781,929**	76.9%	**11,723,633**	76.6%
Other Airlines										
Delta Air Lines	1,051,219	6.7%	1,063,169	6.9%	1,059,638	7.0%	1,093,845	7.1%	1,071,866	7.0%
Southwest Airlines [3/]	2,007,766	12.9%	1,752,816	11.4%	1,350,819	8.9%	1,116,209	7.3%	1,059,963	6.9%
United Airlines [4/]	832,230	5.3%	781,795	5.1%	735,940	4.8%	645,520	4.2%	611,799	4.0%
Frontier Airlines	74,563	0.5%	92,981	0.6%	51,256	0.3%	24,891	0.2%	190,893	1.2%
Spirit Airlines		0.0%		0.0%	30,747	0.2%	129,417	0.8%	142,411	0.9%
JetBlue Airways		0.0%		0.0%	15,502	0.1%	116,655	0.8%	123,511	0.8%
British Airways	107,276	0.7%	114,185	0.7%	110,271	0.7%	112,422	0.7%	120,461	0.8%
Lufthansa German Airlines	60,185	0.4%	51,403	0.3%	54,906	0.4%	63,334	0.4%	70,438	0.5%
Qatar Airways		0.0%		0.0%		0.0%	18,299	0.1%	57,650	0.4%
Alaska Airlines		0.0%	2,790	0.0%	47,617	0.3%	54,569	0.4%	56,514	0.4%
Air Canada	49,839	0.3%	52,515	0.3%	53,728	0.4%	56,524	0.4%	56,038	0.4%
Virgin America		0.0%	38,878	0.3%	155,152	1.0%	97,932	0.6%	26,566	0.2%
Other [5/]	105,217	0.7%	47,101	0.3%	580	0.0%	4,507	0.0%	995	0.0%
Subtotal Other Airlines	**4,288,295**	27.5%	**3,997,633**	26.1%	**3,666,156**	24.1%	**3,534,124**	23.1%	**3,589,105**	23.4%
Airport Total	**15,611,583**	**100.0%**	**15,344,126**	**100.0%**	**15,215,885**	**100.0%**	**15,316,053**	**100.0%**	**15,312,738**	**100.0%**

Notes: Figures may not add to totals shown due to rounding.
[1/] Includes regional affiliated airlines, as applicable.
[2/] American Airlines and US Airways merged on December 9, 2013, and a Single Operating Certificate was awarded April 2015.
[3/] Southwest Airlines and AirTran Airways merged in 2011. Historical enplaned passengers for these airlines are combined in this table.
[4/] United Airlines and Continental Airlines merged in 2010. Historical enplaned passengers for these airlines are combined in this table.
[5/] Includes airlines with minimal market shares or that may not operate at the Airport as of fiscal year 2015.

Source: City of Philadelphia, July 2015
Prepared by: Ricondo & Associates, Inc., July 2015

Air service at the Airport has been introduced or discontinued by multiple air carriers. Table 7 below depicts new air service that has been introduced at the Airport as well as air service that has been ended at the Airport between January 2014 and what is currently scheduled up to December 2015 (scheduled).

Table 7
Scheduled and Discontinued Air Service
Philadelphia International Airport
(January 2014 through December 2015)

	Added Since January 2014
American Airlines	Charleston, WV (CRW), Edinburgh, Scotland (EDI), Ft. Wayne (FWA), Lexington (LEX), Memphis (MEM), Watertown (ART)
Delta Air Lines	London-Heathrow, England (LHR)
Frontier Airlines	Atlanta (ATL), Cancun, Mexico (CUN), Charlotte (CLT), Chicago-O'Hare (ORD), Fort Myers (RSW)*, Houston-Intercontinental (IAH), Miami (MIA), Minneapolis/St. Paul (MSP), Montego Bay (MBJ)*, Orlando (MCO), Tampa (TPA)
JetBlue Airways	Ft. Lauderdale (FLL)*
Qatar Airways	Doha, Qatar (DOH)
Spirit Airlines	Atlanta (ATL), Chicago-O'Hare (ORD)
Southwest Airlines	Dallas-Love Field (DAL)
	Discontinued Since January 2014
American Airlines	Austin (AUS)*, Edinburgh, Scotland (EDI), San Antonio (SAT)*

Notes:
Virgin America suspended service at the Airport in October, 2014
*Scheduled to begin or end after July 31, 2015
Source: Innovata, July 2015

The Airport also provides significant air cargo service as shown in Table 8. United Parcel Service (UPS) operates a regional cargo hub at the Airport that connects the UPS network with mid-Atlantic and European markets. The Airport ranks second among UPS' continental U.S. hubs in terms of destinations served and third in terms of cargo weight. Additionally, passenger airlines carry belly cargo to and from the Airport.

Table 8
Historical Air Cargo (in US tons)
Philadelphia International Airport
(Fiscal Years Ending June 30)

Fiscal Year	Freight	Mail	Total	Growth
2006	575,747	22,408	598,155	(4.2%)
2007	571,452	18,216	589,668	(1.4%)
2008	575,640	22,181	597,821	1.4%
2009	475,365	24,692	500,057	(16.4%)
2010	440,495	20,544	461,039	(7.8%)
2011	449,683	23,937	473,620	2.7%
2012	416,731	27,151	443,882	(6.3%)
2013	388,383	28,285	416,668	(6.1%)
2014	395,661	29,545	425,206	2.0%
2015	402,194	26,681	428,875	0.9%
	Compound Annual Growth Rate			
2006 - 2015	(3.9%)	2.0%	(3.6%)	

Source: City of Philadelphia, Division of Aviation

Information Concerning Airlines Operating at the Airport

General. The Airline Agreement requires the Signatory Airlines to make payments in each fiscal year in amounts which, together with other Project Revenues and other pledged Amounts Available for Debt Service such as pledged PFC Revenues, are sufficient to pay Operating Expenses and annual debt service on all of the City's outstanding Airport Revenue Bonds and general obligation bonds issued by the City for the Airport System and are sufficient to comply with the Rate Covenant. See "SOURCES OF PROJECT REVENUES UNDER THE GENERAL ORDINANCE — Airport-Airline Use and Lease Agreements."

Certain domestic Signatory Airlines serving the Airport are reporting companies subject to the information requirements of the Securities Exchange Act of 1934 and, in accordance therewith, must file reports and other information with the Securities and Exchange Commission (the "Commission"). Certain information, including financial information, concerning such a Signatory Airline (or its agent corporation) is disclosed in certain reports and statements filed with the Commission. Such reports and statements can be inspected in the Public Reference Room of the Commission at 100 F Street, N.E., Washington, D.C. 20549, or at the Commission website at http://www.sec.gov, and copies of such reports and statements can be obtained from the Public Reference Section of the Commission at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates.

In addition, each Scheduled Airline is required to file periodic reports of financial and operating statistics with the Department of Transportation. Such reports may be inspected at the following location: Office of Aviation Information Management; Data Requirements and Public Reports Division Research and Special Programs Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590.

Domestic airlines serving the Airport that are privately held, foreign airlines serving the Airport, and foreign corporations operating airlines serving the Airport (unless such foreign airlines have American Depositary Receipts ("ADR") registered on a national exchange) are not required to file information with the Commission. Such airlines, or foreign corporations operating airlines, serving the Airport file limited information only with the Department of Transportation ("DOT"). Additional data may be posted at the websites of the respective airlines. The City makes no representation as to the accuracy or completeness of any such information prepared and filed by any of the Signatory Airlines.

American Airlines

The Airport currently serves as a major hub for the combined American Airlines system. As set forth in the Market Analysis and Financial Projections, American Airlines, together with its regional airline affiliates, accounted for approximately 11.7 million enplaned passengers, or 76.6% of the Airport's enplaned passengers, in fiscal year 2015. See "CERTAIN INVESTMENT CONSIDERATIONS – Dominance of American Airlines Presence at the Airport" herein.

Based on its current activities at the Airport, American Airlines is an "obligated person" as such term is defined by Rule 15c2-12 promulgated by the Commission ("Rule 15c2-12") and as used in the Continuing Disclosure Agreement to be executed by the City and accepted and acknowledged by American Airlines in connection with the delivery of the Bonds. See "CONTINUING DISCLOSURE AGREEMENT" and APPENDIX VII – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

THE AIRPORT SERVICE REGION

Philadelphia International Airport is the principal airline airport serving the City of Philadelphia and surrounding areas of Pennsylvania, New Jersey, Delaware, and Maryland. The Airport serves as an international passenger gateway, a connecting hub for American Airlines, and a hub for regional airlines, particularly those operating as US Airways Express. The Airport also serves as an international air cargo hub. According to APPENDIX I – "MARKET ANALYSIS AND FINANCIAL PROJECTIONS", the Airport Service Region (or Air Trade Area as referred to therein) had a population of approximately 6.1 million in 2014. Its population has increased at a compound annual growth rate of 0.4% since 2000, compared to a compound annual growth rate of 0.9% for the nation as a whole. According to Market Analysis and Financial Projections, the Airport Service Region's 2014 per capita personal income of $49,662 was 17.2% higher than that of the nation $42,365.

FINANCIAL FACTORS

The City Controller has not participated in the preparation of the budget estimates and projections set forth in various tables contained in this Official Statement or otherwise set forth herein. The financial statements, tables, statistics and other information contained in this Official Statement have been provided by the Division of Aviation and can be reconciled to the financial statements in the City's Comprehensive Annual Financial Report ("CAFR") for the fiscal years 2009 through 2014.

Historical Project Revenues and Operating Expenses

Table 9 contains data provided by the Division of Aviation from its unaudited accrual basis reports and presents information regarding Project Revenues and expenses of the City's Airport System.

Table 9
Summary of Historical Project Revenues and Expenses of the Airport System
(Fiscal Years Ending June 30)
(Amounts expressed in thousands)

	Amounts Available for Debt Service	2010	2011	2012	2013	2014
1.	Revenue deferred from prior year	$7,203	$19,983	$32,069	$28,573	$8,210
1a.	Deferred revenue adjustment	0	1,981	1,668	0	0
2.	Space rentals	86,821	85,812	79,287	85,714	92,397
3.	Landing Fees	49,144	60,152	56,829	59,192	67,392
4.	Ramp Area rentals	1,359	1,232	707	1,053	1,138
5.	Terminal Payments-in-Aid	0	0	0	0	0
6.	Outside Terminal Area Payments-in-Aid	0	0	0	0	0
7.	International Terminal revenues	19,497	17,566	16,202	20,042	24,874
8.	Revenue (deferred)/accrued to subsequent year	(19,983)	(33,737)	(28,573)	(8,210)	10,100
9.	Subtotal, Airline Rentals, Fees and Charges	144,041	152,989	158,190	186,363	204,111
10.	Nonairline Revenue	102,258	107,645	111,196	103,519	112,759
11.	Interest Income	608	152	199	1,899	24
12.	Total Project Revenues	246,907	260,785	269,584	291,781	316,893
13.	Passenger Facility Charges (PFCs) Available for Debt Service	33,133	32,353	31,573	31,160	31,168
14.	Portion of Fund Balance Attributable to Amounts Available for Debt Service	55,128	77,635	65,939	69,272	66,542
15.	Total Amounts Available for Debt Service	335,167	370,773	367,096	392,213	414,604
	Expenses					
16.	Net Operating Expenses	102,860	98,134	99,014	110,210	117,282
17.	Required Renewal Fund Deposit	0	250	500	500	500
18.	Revenue Bond Debt Service	94,307	102,448	103,042	109,836	125,397
19.	General Obligation Bond Debt Service	0	0	0	0	0
20.	Interdepartmental Charges	80,755	88,639	92,666	101,858	103,902
21.	Total Expenses	277,921	289,470	295,222	322,404	347,082
22.	Net Revenue	$57,246	$81,303	$71,874	$69,808	$67,522
	Rate Covenant Test of the Original General Ordinance					
23.	Test A (Line 15-Line 16-Line 17)/(Line 18)	2.46	2.66	2.60	2.56	2.37
24.	Test B (Line 15-Line 16-Line 20)/(Line 18+Line 19)	1.61	1.79	1.70	1.64	1.54

Source: City of Philadelphia, Division of Aviation
Prepared by: AVK Consulting, Inc.

Management Discussion of Historical Results

Table 9 presents the annual revenues and expenses of the Airport System for fiscal years 2010 - 2014. The information contained in Table 9 is presented on the accrual basis of accounting adjusted to meet the particular requirements of the General Ordinance and the Prior Airline Agreement. See APPENDIX II – "FINANCIAL STATEMENTS OF THE DIVISION OF AVIATION FISCAL YEAR ENDED JUNE 30, 2014."

Fiscal Year 2013 and Fiscal Year 2014 Discussion.

Between fiscal years 2013 and 2014, Total Project Revenues, which consist of both Airline and Nonairline Revenues, increased from $291.8 million to $316.9 million. Airline Revenues increased from nearly $186.4 million in fiscal year 2013 to $204.1 million in fiscal year 2014, as projected in the rates and charges budget, primarily due to an increase in debt service requirements resulting from the Series 2010A Bonds (from $1.3 million in fiscal year 2013 to $16.9 million in fiscal year 2014), due to severe winter weather events and labor union settlements in fiscal year 2014. These increases in expenses were offset by an increase in Nonairline Revenues from $103.5 million in fiscal year 2013 to nearly $112.8 million in fiscal year 2014 primarily due to the Airport's concession development program, specifically the reopening of concessions in Terminal F. Terminal F's Central Hub doubled in size to 60,000 square feet and the number of food/beverage/retail offerings increased from five to twenty.

Net Revenue

Net Revenue represents the balance of Total Amounts Available for Debt Service after total Expenses have been taken into account. Net Revenues have decreased slightly, from $69.8 million in fiscal year 2013 to $67.5 million in fiscal year 2014. As noted above, this is mainly attributable to the increase in debt service for the Series 2010A Bonds and increases in operating costs related to weather and labor union settlements.

Rate Covenants

As illustrated in Table 9, the rate covenants prescribed in the General Ordinance were satisfied in each fiscal year. The decrease in debt service coverage from fiscal year 2010 to fiscal year 2014 is attributable to the draw down on certain reserves to mitigate airline rate impacts of unbudgeted expenditures for snow storms, fringe benefits and labor contract settlements. The Airlines have agreed to replenish the Airport's funds used to mitigate the airline rate impacts over a three-year period beginning in fiscal year 2016.

Estimated Project Revenues and Expenses

Table 10 contains data provided by the Division of Aviation regarding estimated Project Revenues and expenses of the City's Airport System on a preliminary basis for fiscal year 2015 and for budgeted amounts for fiscal year 2016.

Table 10
Summary of Estimated Project Revenues and Expenses
Philadelphia International Airport
Preliminary FY 2015 and Budget FY 2016
(Fiscal Years Ending June 30)
(Amounts expressed in thousands)

	Preliminary Fiscal Year 2015	Budget Fiscal Year 2016
Project Revenues	$320,108	$347,729
Pledged Passenger Facility Charges (PFCs)	31,160	31,176
Portion of Fund Balance Attributable to Amounts Available for Debt Service	65,590	65,590
Total Amounts Available for Debt Service	$416,858	$444,495
Less: Net Operating Expenses	$121,391	$128,035
Net Revnue	$295,467	$316,460
Bond Debt Service Requirements	$125,798	$122,373
1.50x Coverage Requirement (Test A)	**2.35**	**2.59**

Source: City of Philadelphia, Division of Aviation
Prepared by: AVK Consulting, Inc.

Management Discussion of Fiscal Year 2015 Estimated Actual and Fiscal Year 2016 Budget

The Airport System's fiscal year 2015 estimated revenues, operating expenses, and debt service are expected to approximate fiscal year 2015 budgeted levels. Specifically, the aggregate of Airline Rentals, Fees and Charges and Nonairline Revenues are estimated at $310.6 million, or 0.6% lower than budgeted. Operating Expenses and Debt Service are estimated at $218.6 million, or 2.6% higher than budgeted.

Based on fiscal year 2016 budgeted Operating Expenses, Debt Service and Nonairline Revenues, required Airline Revenues, Fee and Charges in the fiscal year 2016 budget are $238.0 million, a $32.6 million (15.9%) increase over the fiscal year 2015 preliminary estimate. Nonairline Revenues are expected to increase by $4.4 million and Other Amounts Available for Debt Service are expected to be approximately the same. However, these increases are expected to be offset by an increase in Project Expenses of $27.1 million (8.5%), including a $14.3 million increase in Operating Expenses, a $3.4 million decrease in Debt Service, and a $16.2 million increase in required deposits to the Operating and Maintenance and the Bond Redemption and Improvement Accounts, which includes:

- A projected $6.6 million increase in Net Operating Expenses, which is comprised of the following: a $1.9 million increase for potential tax liability, a $1.6 million increase in contractual services for facility maintenance, a $1.3 million increase in payroll expenses, a $1.3 million increase in the purchase of materials, supplies and equipment, and a $0.5 million required reimbursement to the Airport's Renewal Fund per the General Ordinance.

- A projected $7.7 million increase in Interdepartmental Charges, including: a $3.7 million increase in Airport employee payroll, pension and health and welfare costs, a $2.3 million increase in payroll and fringe benefit expenses for the uniformed (police and fire) employees and other City employees providing service to the Airport, a $1.0 million increase in utility (electric and natural gas) costs from anticipated rate increases, a $0.5 million increase for insurance costs and expected settlements of claims that occurred during previous years, and a $0.2 million increase for new vehicle purchases.

Outstanding and Additional Indebtedness

The following chart reflects the Airport's debt secured on a parity basis by the Pledged Amounts, including its Commercial Paper Notes, and, by Series, its bonds issued under the General Ordinance outstanding as of July 1, 2015 (after the most recent principal payment relating to the Airport Revenue Bonds):

Series	Amount Outstanding as of July 1, 2015
1998B	$ 5,000
2005A*	105,945,000
2005C	131,200,000
2007A	155,035,000
2007B	55,325,000
2009A	36,925,000
2010A	262,665,000
2010C	25,720,000
2010D	217,055,000
2011A	174,870,000
2011B	29,170,000
Commercial Paper	167,600,000
Total	$1,361,515,000

The above-referenced 1998B Bond, 2010D Bonds and 2011A Bonds are additionally secured by a pledge of passenger facility charges ("PFC") and are sometimes hereinafter referred to, collectively, as the "PFC-Pledge Bonds." See "SECURITY FOR THE BONDS — City May Pledge Passenger Facility Charges Revenues" below for further information on the Pledged PFC Revenues that additionally secure only the PFC-Pledge Bonds.

The City may issue additional Airport Revenue Bonds (or Notes) for new capital projects or to refund outstanding Airport Revenue Bonds as more fully described herein under

* The Series 2005A Bonds are being refunded with the Bonds.

"SECURITY FOR THE BONDS – Issuance of Additional Airport Revenue Bonds." If the City receives the approval of the Signatory Airlines as required under the Airline Agreement, or if the project does not require the approval of the Signatory Airlines under the Airline Agreement, the City is authorized to include the debt service on Airport Revenue Bonds issued to finance such approved capital projects in the airlines' rates, fees and charges. See "CAPITAL IMPROVEMENT PROJECTS AT THE AIRPORT – Funding Sources for Airport System Capital Projects – Airport Revenue Bonds" herein.

The City established a $350 million commercial paper program (i.e., the Commercial Paper Notes) in early 2013 to provide funding for capital projects for the Airport System approved by the Signatory Airlines. As of July 1, 2015, $167.6 million of Commercial Paper Notes were outstanding. The Commercial Paper Notes are secured by three direct pay letters of credit provided by Barclays Bank PLC, PNC Bank, National Association, and Wells Fargo Bank, National Association which expire in January 2016, as well as Pledged Amounts (as defined herein) on parity with the other outstanding Airport Revenue Bonds.

Schedule of Debt Service

The following schedule of debt service shows the debt service requirements on the Bonds together with estimated debt service on other outstanding Airport Revenue Bonds.

Table 11
Schedule of Debt Service
Philadelphia International Airport
(Fiscal Years Ending June 30)

	The Bonds			Other Outstanding Airport Revenue Bonds	
Fiscal Year	Principal	Interest	Total Debt Service on the Bonds**	Existing Debt Service*	Total Debt Service**
2016	$4,120,000	$3,680,374	$7,800,374	$111,011,723	$118,812,097
2017	3,135,000	4,533,550	7,668,550	111,244,130	118,912,680
2018	3,255,000	4,408,150	7,663,150	110,324,813	117,987,963
2019	3,390,000	4,277,950	7,667,950	100,674,019	108,341,969
2020	3,560,000	4,108,450	7,668,450	100,654,779	108,323,229
2021	3,735,000	3,930,450	7,665,450	100,484,756	108,150,206
2022	3,920,000	3,743,700	7,663,700	100,546,529	108,210,229
2023	4,120,000	3,547,700	7,667,700	100,603,053	108,270,753
2024	4,325,000	3,341,700	7,666,700	100,663,565	108,330,265
2025	4,540,000	3,125,450	7,665,450	100,727,697	108,393,147
2026	4,765,000	2,898,450	7,663,450	85,664,369	93,327,819
2027	5,005,000	2,660,200	7,665,200	85,663,269	93,328,469
2028	5,260,000	2,409,950	7,669,950	78,380,119	86,050,069
2029	5,515,000	2,146,950	7,661,950	36,778,756	44,440,706
2030	5,800,000	1,871,200	7,671,200	33,030,313	40,701,513
2031	6,090,000	1,581,200	7,671,200	33,035,525	40,706,725
2032	6,365,000	1,298,600	7,663,600	30,445,525	38,109,125
2033	6,625,000	1,044,000	7,669,000	30,449,275	38,118,275
2034	6,955,000	712,750	7,667,750	30,445,775	38,113,525
2035	7,300,000	365,000	7,665,000	30,447,775	38,112,775
2036				30,445,250	30,445,250
2037				30,439,750	30,439,750
2038				18,661,250	18,661,250
2039				18,665,250	18,665,250
2040				18,663,750	18,663,750
Total	$97,780,000	$55,685,774	$153,465,774	$1,628,151,014	$1,781,616,788

* Debt service on the Series 2005C Bonds is calculated using fixed swap payments as outlined in the swap documents, plus Letter of Credit fees relating to the Series 2005C Bonds to the expiration date of the Letter of Credit. The schedule does not include debt service on the Commercial Paper Notes.
** Figures may not add to totals shown due to rounding.
Source: City of Philadelphia, Office of City Treasurer

Airline costs for landing fees, terminal rentals and other use charges are often expressed on a cost per enplaned passenger basis. The following Table 12 presents the airline costs (which include landing fees, terminal rentals and other use charges) per enplaned passenger taken from the City's financial records.

Table 12

Airline Cost per Enplaned Passenger
Philadelphia International Airport
(Fiscal Years Ending June 30)

Fiscal Year	Airline Cost Per Enplaned Passenger
2010	$10.03
2011	10.23
2012	9.65
2013	10.48
2014	11.74

Source: City of Philadelphia, Division of Aviation

The preliminary airline cost per enplaned passenger for fiscal year 2015 is estimated to be $12.81.

Cash Management and Investment Policies

As a division of the City, the Airport is subject to the City's cash management and investment policies. See APPENDIX III – "THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION – CITY CASH MANAGEMENT AND INVESTMENT POLICIES."

Pensions and OPEBs

As a division of the City, the Airport is subject to the City's pension plan and OPEBs liability. See APPENDIX III – "THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION – PENSION SYSTEM" and "– OTHER POST-EMPLOYMENT BENEFITS."

Hedges and Swaps

General. The City has adopted a swap policy for the use of swaps, caps, floors, collars and other derivative financial products. See APPENDIX III – "THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION – OTHER FINANCING RELATED MATTERS – Swap Policy."

The General Ordinance authorizes the City, at the time of issuance of a series of Bonds or at any time thereafter, to enter into interest rate exchange agreements, interest rate swap agreements or other similar agreements, to the extent permitted by applicable law and in accordance with the General Ordinance, if the City determines that such agreement will assist the City in more effectively managing its interest costs. Such agreements may be effected as Qualified Swaps or as Exchange Agreements. Payments under Qualified Swaps (other than termination payments) are made from the Sinking Fund and are calculated as part of Debt Service Requirements, and payments under Exchange Agreements (other than termination payments) are made only after required deposits to the Sinking Fund and the Sinking Fund Reserve are made and are on a parity with required deposits to the Renewal Fund. Termination payments on Qualified Swaps and on a certain Exchange Agreement (discussed below) are permitted to be made only after required transfers to the Sinking Fund, Sinking Fund Reserve and the Renewal Fund have been made.

The General Ordinance provides, among other things, that the City will not enter into a Qualified Swap or Exchange Agreement unless it receives written confirmation from S&P that such agreement, in and of itself, will not result in a downgrade, withdrawal or suspension of the credit ratings on the series of Bonds.

In 2002, the City entered into a swaption agreement. In 2005, JP Morgan Chase Bank – New York, the counterparty exercised its option, and the interest rate swap agreement (the "Swap Agreement") commenced. The Swap Agreement is associated with the 2005C Bonds and terminates on June 15, 2025 if not previously terminated by the counterparty. The Swap Agreement is an "Exchange Agreement," as such term is defined in the General Ordinance. The City's obligations under the Swap Agreement are payable solely from and secured solely by Project Revenues in the order of priority listed in Section 4.06 of the General Ordinance, that is, subject and subordinate to the City's obligations to pay Net Operating Expenses, Debt Service Requirements (including debt service on the Bonds, payments on Qualified Swaps and Credit Facility charges secured on a parity to Bonds) and obligations to replenish the Sinking Fund Reserve. Further, the City's obligation to pay termination payments with respect to the Swap Agreement and the security interest in Project Revenues therefor are subject and subordinate to its obligation to make periodic payments under the Swap Agreement. As of June 30, 2015, the fair value of the Swap Agreement was negative $16.229 million to the City, including accrued interest.

Letter of Credit Agreements

The City has entered into two letter of credit agreements relating to the Series 2005C Bonds as detailed in the table below. Under the terms of such letter of credit agreements, following a purchase of the applicable bonds, the City may be required to amortize such bonds more quickly than as originally scheduled at issuance.

Table 13
Letter of Credit Agreements
Philadelphia International Airport
(Related to Series 2005C Bonds)

Sub-Series	Amount Outstanding	Bond Maturity Date	Provider	Expiration Date	Rating Thresholds
2005C-1	$65,600,000	June 15, 2025	TD Bank	Dec. 23, 2019	The unenhanced ratings assigned by any two or all of the Ratings Agencies are withdrawn or suspended for credit-related reasons or falls below investment grade.
2005C-2	$65,600,000	June 15, 2025	Royal Bank of Canada*	Dec. 22, 2017	Any unenhanced rating is withdrawn or suspended for credit-related reasons or falls below investment grade.

*The Royal Bank of Canada is the parent company of RBC Capital Markets, LLC, the Underwriter.
Source: City of Philadelphia, Division of Aviation

The City has also entered into three letter of credit agreements for the Airport's Commercial Paper Notes as described above under "–Outstanding and Additional Indebtedness." Such letter of credit agreements expire in January 2016.

Aviation Liability and Property Insurance

The City maintains comprehensive Aviation Liability Insurance coverage for claims arising out of bodily injury, personal injury or property damage arising from the operations of the Airport System. This insurance coverage provides a combined single limit of $500 million. The Self Insured Retention is $1,500,000 each occurrence/$1,500,000 annual aggregate. "War Risk" coverage in the amount of $50 million is also provided under the City's General Liability Insurance policy. The City also maintains "All Risks" Property Insurance coverage for property at the Airport System (including real and business) in the amount of $2 billion with deductibles of $250,000 at Philadelphia International Airport and $100,000 at Northeast Airport and International Plaza (Buildings 1 and 2). The Property policy also includes but is not limited to business interruption (including loss of rents and extra expense), mechanical breakdown coverage, electronic data processing coverage, flood, earthquake, and terrorism coverage.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds entails certain investment risks. Prospective purchasers of the Bonds are urged to read this Official Statement, including the Appendices, in its entirety. The factors set forth below, among others, may affect repayment of and the security for the Bonds.

General Factors Affecting the Airline Industry

The revenues of the Airport are affected substantially by the economic health of the airport transportation industry and the airlines serving the Airport. Particularly, since 2001 the airline industry has undergone structural changes and sustained significant financial losses until recently. The economic condition of the industry is volatile and the industry is sensitive to a variety of factors, including (i) the cost and availability of fuel, labor, aircraft, and insurance, (ii) general economic conditions, (iii) international trade, (iv) currency values, (v) competitive considerations, including the effects of airline ticket pricing, (vi) traffic and airport capacity constraints, (vii) governmental regulation, including security regulations and taxes imposed on airlines and passengers, and maintenance and environmental requirements, (viii) passenger demand for air travel, and (ix) disruption caused by airline accidents, criminal incidents and acts of war or terrorism, such as the events of September 11, 2001. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the strength of the U.S. economy, other regional economies, corporate profitability, safety and security concerns and other factors. Ongoing structural changes to the industry are the result of a number of factors including the impact of low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy Code.

Economic Conditions

The financial performance of the air transportation industry correlates with the state of the national economy and the global economy. Future increases in passenger traffic will depend largely on the ability of the U.S. to sustain growth in economic output and income. Following significant and dramatic changes which occurred in the financial markets in September 2008, the U.S. economy experienced a recession followed by weak growth. There can be no assurances that the prolonged weak economic conditions or other national and international fiscal concerns will not have an adverse effect on the air transportation industry.

Aviation Fuel Costs

Airline earnings are significantly affected by changes in the price of aviation fuel. According to the Air Transport Association (the “ATA”), fuel, along with labor costs, is one of the largest cost components of airline operations, and therefore is an important and uncertain determinate of an air carrier’s operating economics. There has been no shortage of aviation fuel since the “fuel crisis” of 1974, but there have been significant fluctuations in the price of fuel.

Airline earnings are affected by changes in the price of aircraft fuel, which in turn is affected by natural disasters, hostilities and political unrest in various parts of the world, Organization of the Petroleum Exporting Countries (OPEC) policy, the increased demand for fuel caused by the rapid growth of the economies of countries such as China and India, disruptions to production and refining operations, the levels of fuel inventory maintained by certain industries, currency fluctuations, the amount of fuel reserves maintained by governments, and other factors determining demand and supply. U.S. airlines have passed on higher fuel costs to consumers by imposing fuel surcharges, baggage fees, other extra surcharges and increasing airfares. While current fuel costs have decreased, significant and prolonged high aviation fuel costs or any decreases in the availability of aviation fuel would likely have an adverse impact on air transportation industry economics and the ability to provide air service.

Public Health Concerns

Public health concerns have also affected air travel demand from time to time, including, in 2003, concerns about the spread of severe acute respiratory syndrome; in 2009, concerns about the spread of influenza; and, more recently, in 2014, an outbreak of Ebola in West Africa.

Demand for Air Travel

Airline fares have an important effect on passenger demand, particularly for relatively short trips where the automobile, rail or other land travel modes are alternatives and for price-sensitive "discretionary" travel, such as vacation travel. Airfares are influenced by airline operating costs and debt burden, passenger demand, capacity and yield management, market presence and competition. If airlines are unable to charge fares sufficiently high to cover operating costs and interest expense they will experience financial difficulty, which could adversely affect Airport revenues and the willingness of the airlines to approve additional Capital Improvement Projects.

Many factors have combined to alter consumer travel patterns. The threat of terrorism against the United States remains high. As a result, the federal government has mandated various security measures that have resulted in new security taxes and fees and longer passenger processing and wait times at airports. Both add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations.

Capacity of National Air Traffic Control and Airport Systems

Demands on the nation's air traffic control system continue to cause aircraft delays and restrictions, both on the number of aircraft movements in certain air traffic routes and on the number of landings and takeoffs at certain airports. These restrictions affect airline schedules and passenger traffic nationwide. In addition, increasing demands on the national air traffic control and airport systems could cause increased delays and restrictions in the future.

Aviation Safety and Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of potential international hostilities and terrorist attacks, may influence passenger travel behavior and air travel demand. These concerns intensified in the aftermath of the events of September 11, 2001 and again in 2014 following the high profile disappearance of Malaysia Airlines Flight 370 and the crash of Malaysia Airlines Flight 17. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Although the U.S. government, airlines and airport operators have upgraded security measures to guard against terrorist incidents and maintain confidence in the safety of airline travel since the attacks of September 11, 2001, no assurance can be given that these precautions will be successful. The possibility of intensified international hostilities and further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

Further, future enhanced securities procedures may significantly increase inconvenience and delays at airports, including the Airport, again impacting passenger demand for air travel.

Dominance of American Airlines Presence at the Airport

As noted above under "THE AIRPORT SYSTEM – AIRPORT ACTIVITY AND SIGNATORY AIRLINES – American Airlines," American Airlines is, by far, the largest Signatory Airline at the Airport. A large portion of American Airlines business relates to connecting traffic. If American Airlines ceases or significantly reduces operations at the Airport, other airlines may not pick up all of the traffic. The loss of American Airlines could also leave the remaining Signatory Airlines with significant additional financial commitments.

On December 9, 2013, the parent companies of US Airways and the prior American Airlines merged to form American Airlines Group, Inc.

The City has no information regarding the financial condition of American Airlines and its future plans generally, and with regard to the Airport in particular, other than from bankruptcy court filings and filings with the Commission. The Commission's website is http://www.sec.gov.

Neither the City nor the Underwriters undertake any responsibility for or make any representations as to the accuracy or completeness of the content of information available from the Commission, including but not limited to, updates of such information or links to other internet sites accessed through the Commission's web site.

See also "Effect of Bankruptcies and Mergers on Various Airline Agreements" and "Limitations on Bondholders' Remedies" below.

Forward-Looking Statements

The statements contained in this Official Statement, including the Appendices, and in any other information provided by the City and other parties to this transaction described herein 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," "projects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "illustrate," "example," and "continue," or the singular, plural, negative or other derivations of these of 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 hereof, and the City assumes no 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, including the Appendices, and such variations may be material, which could affect the ability to fulfill some or all of the obligations under the Bonds.

Market Analysis and Financial Projections

The financial projections in the Market Analysis and Financial Projections regarding the Airport are based generally upon certain assumptions, as well as economic, demographic and development trends. See APPENDIX I - "2015 PHILADELPHIA INTERNATIONAL AIRPORT MARKET ANALYSIS AND FINANCIAL PROJECTIONS," including, particularly, Section 8.1 – "Assumptions Underlying the Projections" therein. Inevitably, some of the assumptions and other data used to develop the projections will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual financial results achieved during the projection periods will vary from the financial projections, and such differences may be material.

Passenger Facility Charge Revenues

In the event that the City does not collect expected PFC Revenues, it may have to use other Pledged Amounts to pay debt service on the PFC-Pledge Bonds. Such an event likely would require the City to increase rates and fees, including landing fees and terminal rentals, and/or reduce operating expenses to pay debt service costs and other costs of capital projects.

The ability of the City to collect annually sufficient PFC Revenues depends upon a number of factors including the operation of the Airport by the City, the number of enplanements at the Airport, the use of the Airport by the carriers collecting the PFC Revenues (the "Collecting Carriers"), and the efficiency and ability of the Collecting Carriers to collect and remit PFCs to the City. The City relies upon the Collecting Carriers' collection and remittance of PFCs and both the City and the FAA rely upon the air carriers' reports of enplanements and collections.

Further, the City's authority to impose PFCs is expected to expire in 2019. However, a new application in the amount of $109.1 million is presently under consideration by the FAA, which will extend the expiration date to 2021, after which time the City cannot guarantee that a new application to extend that authority will be timely submitted to, or approved by, the FAA.

In addition, the FAA may terminate the City's authority to impose PFCs, subject to informal and formal procedural safeguards, or the PFC Act, the PFC Regulations, or the City's approvals from the FAA could be amended in a manner that would adversely affect the City's ability to collect and use PFC Revenues.

The PFC Act provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. However, the airlines are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted. In the event of a bankruptcy, the PFC Enabling Act, as amended in December 2003, provides that (1) PFCs are and remain trust funds, (2) the airline in bankruptcy may not grant to any third party any security or other interest in PFC revenue, and (3) the airline in bankruptcy must segregate in a separate account PFC revenue equal to its average monthly PFC liability. Despite these enhanced statutory protections, it is unclear whether the City would be able to recover the full amount of PFC trust funds collected or accrued with respect to an airline in the event of a liquidation or cessation of business. The City also cannot predict whether an airline operating at the Airport, that files for bankruptcy, would have properly accounted for PFCs owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for PFCs owed by such airline. All airlines operating at the Airport are current in the payment of PFCs owed to the City.

Effect of Bankruptcies and Mergers on Various Airline Agreements

General; Bankruptcies and Mergers. The Airport derives a substantial portion of its operating revenues from landing fees, rentals and concession fees. The financial strength and stability of the airlines serving the Airport, together with numerous other factors, influence the level of aviation activity at the Airport. In addition, individual airline decisions regarding the level of service, particularly hubbing activity and aircraft size (such as the use of regional jets) can affect total enplanements.

The airlines serving the Airport have all been impacted by the financial difficulties and bankruptcies of other carriers and have experienced an increase in costs and a resulting decline in financial condition to varying degrees. Since 2001, several airlines with operations at the Airport have filed for and have subsequently emerged from bankruptcy protection. Additional bankruptcies, liquidations, mergers or major restructurings of other airlines could occur. It is not possible to predict the impact on the Airport of the recent, potential and any future bankruptcies, liquidations, mergers or major restructurings of other airlines.

Further airline consolidation is possible and could change airline service patterns, particularly at the connecting hub airports of the merged airlines. The Airport cannot predict what impact, if any, such consolidations will have on airline traffic at the Airport.

Assumption or Rejection of Agreements. In the event of bankruptcy proceedings involving one or more of the Signatory Airlines or other air carriers, the debtor or its bankruptcy trustee must determine within a time period determined by the court whether to assume or reject the Airline Agreement or other Airport agreements. In the event of assumption, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant agreements. Rejection of a lease or executory contract by any of the Signatory Airlines would give rise to an unsecured claim of the City for damages, the amount of which in the case of a lease is limited by the Bankruptcy Code. However, the costs of Terminal Building Area vacated as a result of a rejection of an Airline Agreement by a Signatory Airline in bankruptcy would be passed on to the remaining Signatory Airlines under their Airline Agreements. If the bankruptcy of one or more Signatory Airlines were to occur, there can be no assurance that the remaining Signatory Airlines would be able, individually or collectively, to meet their obligations under the Airline Agreements. See "THE AIRPORT SYSTEM – AIRPORT ACTIVITY AND SIGNATORY AIRLINES – Information Concerning the Signatory Airlines."

If contractual agreements with the airlines do not exist, rates and charges for use of the Airport System will be set by regulation of the City – currently, the Airport Rates and Charges Regulation.

Federal Funding Considerations

The City depends upon federal funding for the Airport not only in connection with grants and PFC authorizations but also because it is federal funding that provides for TSA, air traffic control and other FAA staffing and facilities. The FAA currently operates under the FAA Modernization and Reform Act of 2012, which is scheduled to expire on September 30, 2015. That statute was the first long-term FAA authorization since 2007 and ended a period of 23 short-term extensions of FAA authority, including a two-week, partial shutdown of all FAA facilities. Federal funding is also impacted by sequestration under the federal Budget Control Act of 2011. Except to the extent changed by Congress from time to time, sequestration is a multi-year process and could continue to affect FAA, TSA and Customs and Border Control budgets and staffing, which results in staffing shortages and furloughs and traffic delays at the Airport and nationwide. Some of the TSA funding shortages are being addressed by increasing the amount (and removing the cap) on the security fees on tickets, but no assurance can be given that such fees will be sufficient or that the increased ticket costs will not result in lower passenger enplanements.

Federal Regulation Regarding Rates and Charges Disputes

The FAA Authorization Act of 1994 establishes that airline rates and charges set by airports be "reasonable" and mandates an expedited administrative process by which the Secretary of Transportation (the "Secretary") shall review rates and charges complaints. An affected air carrier may file a written complaint requesting a determination of the Secretary as to reasonableness within 60 days after such carrier receives written notice of the establishment or increase of such fee. During the pendency of the review, the airlines must pay the disputed portion of the fee to the airport under protest, subject to refund to the extent such fees are found to be unreasonable by the Secretary. The airport must obtain a letter of credit, surety bond or other suitable credit facility equal to the amount in dispute unless the airport and the complaining carriers agree otherwise. Application of these provisions could adversely impact the amount of airline rates and charges received by airports.

Limitations on Bondholders' Remedies

The rights and remedies of the Fiscal Agent and the Bondholders with respect to the Bonds are subject to various provisions of Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"), which permits, under certain circumstances, a political subdivision or public agency or instrumentality of a state to file a voluntary petition in bankruptcy in the nature of a plan for adjustment in the repayment of debts if, generally, the entity is insolvent or unable to meet its debts as they mature. Such a petition may be filed by a political subdivision (such as the City) only if the state legislature has specifically authorized (by description or by name) the entity to be a debtor under Chapter 9 of the Bankruptcy Code or a governmental officer or organization empowered by state law to give such authorization has done so. The Financially Distressed Municipalities Act, Act No. 1987-47 of the Commonwealth of Pennsylvania, approved July 10, 1987, amended in 1992 and now known as the Municipalities Financial Recovery Act, Act No. 1992-69 of the Commonwealth, approved June 30, 1992 ("Financial Recovery Act"), provides, among other things, for the restructuring of debt of a financially distressed municipality and the method by which such entities are permitted to apply for relief under the Bankruptcy Code. In addition, the Financial Recovery Act empowered the Department of Community Affairs of the Commonwealth (now the Department of Community and Economic Development) to declare certain municipalities financially distressed upon the occurrence of certain events and the making of certain determinations by such Department.

With respect to the City, certain provisions of the Financial Recovery Act have been preempted by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, Act No. 1991-6 of the Commonwealth, approved June 5, 1991 (the "PICA Act"). The provisions of the Financial Recovery Act relating to the City that were not preempted have been suspended with respect to the City by the PICA Act. The PICA Act prevents the City from filing a petition for relief under Chapter 9 of the Bankruptcy Code as long as PICA has outstanding any bonds issued pursuant to the PICA Act. As of July 1, 2015, PICA had bonds outstanding in the aggregate principal amount of $315,955,000 and the maturity of those bonds extends until June 30, 2023 in the absence of early redemption. If no such bonds were outstanding, the PICA Act requires approval in writing by the Governor of the Commonwealth for a filing under Chapter 9 by the City. If the provisions of the PICA Act relating to the authorization by the Governor for the City to file a petition under Chapter 9 of the Bankruptcy Code were invoked, such provisions could limit the enforcement of rights and remedies by holders of the Bonds and other Airport Revenue Bonds. Because the term of the Bonds extends beyond the latest maturity date of the bonds issued by PICA, there is a possibility that the City could file for bankruptcy protection under the Bankruptcy Code. Should the City ever file under Chapter 9 of the Bankruptcy Code, the rights and remedies of the holders of the Bonds and other Airport Revenue Bonds may be adversely affected.

The enforceability of the rights and remedies of the Fiscal Agent and the holders of Bonds may also be limited by other bankruptcy or insolvency or other laws now or hereafter in effect affecting the rights or remedies of creditors generally, or be subject to principles of equity, if equitable remedies are sought.

TAX MATTERS

Tax Exemption – Opinion of Co-Bond Counsel

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the 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 City subsequent to the issuance and delivery of the Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The City has covenanted to comply with such requirements.

In the opinion of Co-Bond Counsel, interest on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, except as to interest on any Bond during any period such Bond is held by a person who is a "substantial user" of the facilities refinanced with the Bond proceeds or a "related person," as those terms are used in Section 147(a) of the Code. The opinion of Co-Bond Counsel is subject to the condition that the City comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so includable in gross income retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements.

Interest on the Bonds is treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. Co-Bond Counsel expresses no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon. See discussion of "Alternative Minimum Tax," "Branch Profits Tax," "S Corporations with Passive Investment Income," "Social Security and Railroad Retirement Benefits," "Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations," and "Property or Casualty Insurance Company" and "Accounting Treatment of Original Issue Discount and Amortizable Bond Premium" below.

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

Alternative Minimum Tax

Interest on the Bonds is treated as an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under Section 57 of the Code and the interest on the Bonds may be included in "adjusted current earnings" for purposes of computing the alternative minimum tax applicable to corporations.

Branch Profits Tax

Under the Code, foreign corporations engaged in a trade or business in the United States will be subject to a "branch profits tax" equal to thirty percent (30%) of the corporation's "dividend equivalent amount" for the taxable year. The term "dividend equivalent amount" includes interest on tax-exempt obligations.

S Corporations with Passive Investment Income

Section 1375 of the Code imposes a tax on the income of certain small business corporations for which an S Corporation election is in effect, and that have "passive investment income." For purposes of Section 1375 of the Code, the term "passive investment income" includes interest on the Bonds. This tax applies to an S Corporation for a taxable year if the S Corporation has Subchapter C earnings and profits at the close of the taxable year and has gross receipts, more than twenty-five percent (25%) of which are "passive investment income." Thus, interest on the Bonds may be subject to federal income taxation under Section 1375 of the Code if the requirements of that provision are met.

Social Security and Railroad Retirement Benefits

Under Section 86 of the Code, certain Social Security and Railroad Retirement benefits (the "benefits") may be includable in gross income. The Code provides that interest on tax-exempt obligations (including interest on the Bonds) is included in the calculation of "modified adjusted gross income" in determining whether a portion of the benefits received are to be includable in gross income of individuals.

Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations

The Code, subject to limited exceptions not applicable to Bonds, denies the interest deduction for indebtedness incurred or continued to purchase or carry tax-exempt obligations, such as the Bonds. With respect to banks, thrift institutions and other financial institutions, the denial to such institutions is one hundred percent (100%) for interest paid on funds allocable to the Bonds and any other tax-exempt obligations acquired after August 7, 1986.

Property or Casualty Insurance Company

The Code also provides that a property or casualty insurance company may incur a reduction, by a specified portion of its tax-exempt interest income, of its deduction for losses incurred.

Reportable Payments and Backup Withholding

Under 2006 amendments to the Internal Revenue Code, payments of interest on Bonds will be reported to the Internal Revenue Service by the payor on the Form 1099 unless the Bondholder is an "exempt person" under Section 6049 of the Code. A Bondholder who is not an exempt person may be subject to "backup withholding" at a specified rate prescribed in the Code if the Bondholder does not file Form W-9 with the payor advising the payor of the Bondholder's taxpayer identification number. Bondholders should consult their brokers regarding this matter.

The Fiscal Agent will report to the Bondholders and the Internal Revenue Service for each calendar year the amount of "reportable payments" during such year and the amount of tax withheld, if any, with respect to payments on the Bonds.

Accounting Treatment of Original Issue Discount and Amortizable Bond Premium

The Bonds maturing on June 15, 2031 with an interest rate of 4.00% and on June 15, 2032 are herein referred to as the "Discount Bonds." In the opinion of Co-Bond Counsel, the difference between the initial public offering price of the Discount Bonds set forth on the cover page and the stated redemption price at maturity of each such Bond constitutes "original issue discount," all or a portion of which will, on the disposition or payment of such Bonds, be treated as tax-exempt interest for federal income tax purposes. Original issue discount will be apportioned to an owner of the Discount Bonds under a "constant interest method," which utilizes a periodic compounding of accrued interest. If an owner of a Discount Bond who purchases it in the original offering at the initial public offering price owns that Discount Bond to maturity, that Bondholder will not realize taxable gain for federal income tax purposes upon payment of the Discount Bond at maturity. An owner of a Discount Bond who purchases it in the original offering at the initial public offering price and who later disposes of the Discount Bond prior to maturity will be deemed to have accrued tax-exempt income in a manner described above; amounts realized in excess of the sum of the original offering price of such Discount Bond and the amount of accrued original issue discount will be taxable gain.

Purchasers of Discount Bonds should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on the Discount Bonds. Prospective purchasers of the Discount Bonds should consult their tax advisors regarding the Pennsylvania tax treatment of original issue discount.

The Bonds, other than the Discount Bonds, are hereinafter referred to as the "Premium Bonds." An amount equal to the excess of the initial public offering price of a Premium Bond set forth on the inside cover page over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

LEGAL PROCEEDINGS

General

The City is involved in several claims and lawsuits arising in the ordinary course of operations of the Airport System. The City estimates that any liability assessed against the City, as a result of claims that are not covered by insurance or otherwise, would not materially and adversely affect the Bonds, the sources of payment and security for the Bonds or the financial condition or operations of the Airport System. There has been no litigation seeking to enjoin the issuance, sale or delivery of the Bonds.

No Litigation Opinion

Upon delivery of the Bonds, the City Solicitor will furnish an opinion, in form satisfactory to Co-Bond Counsel and to the Underwriters, to the effect that, among other things, except for litigation which in the opinion of the City Solicitor is without merit and except as disclosed in this Official Statement, there is no litigation or other legal proceeding pending in any court, or, to the knowledge of the Law Department after investigation, threatened in writing against the City, to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting the validity or enforceability of the Bonds.

UNDERWRITING

The Bonds are being purchased by the underwriters listed on the cover page of this Official Statement (the "Underwriters"), for which RBC Capital Markets LLC is acting as Representative (the "Representative"), at a purchase price of $107,844,621.22, which represents the principal amount of the Bonds, $97,780,000, plus net original issue premium of $10,459,295.15, and less an underwriters' discount of $394,673.93. The Underwriters will purchase all of the Bonds if any Bonds are purchased. The obligation of the Underwriters to purchase the Bonds is subject to certain terms and conditions set forth in the purchase contract related to the Bonds.

RBC Capital Markets, LLC has provided the following information for inclusion in this Official Statement: The Representative and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Representative and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Representative and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the City. The Representative and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City. The Representative and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

This paragraph has been supplied by Siebert Brandford Shank & Co., L.L.C. ("SBS")." SBS, one of the Underwriters for the Bonds, has entered into an agreement with Credit Suisse Securities (USA) for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to the distribution agreement, if applicable to the Bonds, Credit Suisse Securities (USA) will purchase Bonds at the original issue price less the selling concession with respect to any Bonds that Credit Suisse Securities (USA) sells. SBS will share a portion of its underwriting compensation with Credit Suisse Securities (USA).

The initial public offering prices of the Bonds set forth on the inside cover page of this Official Statement may be changed without notice by the Underwriters. The Underwriters may offer and sell Bonds to certain dealers (including dealers' deposition Bonds into investment trusts, certain of which may be sponsored or managed by the Underwriters) and others at prices lower that the offering prices set forth on the inside cover page.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Rating Services ("Standard & Poor's"), and Fitch Ratings ("Fitch") have assigned ratings to the Bonds of "A2" stable outlook, "A" stable outlook, and "A" stable outlook, respectively.

A rating, including any related outlook with respect to potential changes in such ratings, reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of any such rating may be obtained only from the rating agency furnishing the same. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any of such rating agencies if, in the judgment of any of them, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price or marketability of the Bonds.

CO-FINANCIAL ADVISORS

Frasca & Associates, LLC and Public Financial Management, Inc. have been retained by the City as Co-Financial Advisors in connection with the issuance of the Bonds and, in such capacity, have assisted the City in the preparation of Bond-related documents.

Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources that are believed to be reliable, including financial records of the City, reports of consultants and other entities that may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

MARKET ANALYSIS AND FINANCIAL PROJECTIONS

The Market Analysis and Financial Projections set forth in APPENDIX I was prepared by Ricondo & Associates, Inc. and AVK Consulting, Inc. (collectively, the "Airport Consultants") in connection with the issuance of the Bonds. Such report is set forth herein in reliance upon the knowledge and experience of such firms as airport consultants. The Airport Consultants have consented to the inclusion of their report herein.

See "CERTAIN INVESTMENT CONSIDERATIONS – Market Analysis and Financial Projections" herein.

APPROVAL OF LEGALITY

Certain legal matters incident to the authorization, issuance and sale of the Bonds will be passed upon by Saul Ewing LLP, Philadelphia, Pennsylvania, and Andre C. Dasent, P.C., Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed form of such approving opinion is included herein as APPENDIX VI. Certain legal matters incident to the disclosure relating to the Bonds will be passed upon by Nixon Peabody LLP, New York, New York, and Turner Law, P.C., Philadelphia, Pennsylvania, Co-Disclosure Counsel. Hawkins Delafield & Wood LLP, as General Fund Disclosure Counsel to the City, will be delivering an opinion to the City and the Underwriters with respect to Appendix III. Certain legal matters will be passed upon for the City of Philadelphia by the City Solicitor. Certain legal matters will be passed upon for the Underwriters by Duane Morris LLP, Philadelphia, Pennsylvania, and Ahmad Zaffarese LLC, Philadelphia, Pennsylvania, Co-Counsel to the Underwriters.

RELATIONSHIPS OF CERTAIN PARTIES

The firms serving as Co-Bond Counsel, Co-Disclosure Counsel and Co-Counsel to the Underwriters have each, in the past, provided legal services to the City and periodically (including currently) represent the City on matters unrelated to the issuance and sale of the Bonds.

ADDITIONAL INFORMATION

It is the practice of the City in connection with the issuance and sale of each issue of the City's bonds or notes, to require in its contract with its underwriters that the underwriters deposit the Official Statement of the City relating to such issue of bonds or notes with a nationally recognized municipal securities information repository (a "Repository") as soon as practicable after delivery of such Official Statement. It is also the City's practice to file its Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, with a Repository as soon as practicable after delivery of such report. Since July 1, 2009, pursuant to Securities and Exchange Commission Rule 15c2-12, all such filings must be made with the Municipal Securities Rulemaking Board (MSRB) through the MSRB's Electronic Municipal Market Access (EMMA) system. The CAFR for the City's fiscal year ended June 30, 2014 was filed with EMMA on February 25, 2014. The CAFR is prepared by the Office of the Director of Finance of the City in conformance with guidelines adopted by the Governmental

Accounting Standards Board and the American Institute of Certified Public Accountants audit guide, Audits of State and Local Government Units. Upon written request to the Office of the Director of Finance and payment of the costs of duplication and mailing, the City will make available copies of the CAFR for the fiscal year ended June 30, 2014. Such a request should be addressed to: Office of the Director of Finance, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, PA 19102. A copy of the financial statements of the City for the fiscal year ended June 30, 2014, may be downloaded at http://www.phila.gov/investor. The CAFR contains pertinent information with respect to the Division of Aviation. The City also expects to provide financial and other information as to the City from time to time to Moody's, S&P and Fitch in connection with securities ratings issued by those rating agencies for bonds or notes of the City.

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

CONTINUING DISCLOSURE AGREEMENT

In order to assist the Underwriters in complying with the requirements of Section (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the City will enter into a continuing disclosure undertaking (the "Continuing Disclosure Agreement") for the benefit of the owners of the Bonds in substantially the form set forth in APPENDIX VII. See APPENDIX VII — "FORM OF CONTINUING DISCLOSURE AGREEMENT" for the detailed provisions of the proposed form of Continuing Disclosure Agreement.

At this time, only the City and American Airlines (which is a party to the Airline Agreement and pursuant thereto currently accounts for at least 20% of Project Revenues, as defined in the General Ordinance for the past two fiscal years) are "obligated persons" for annual reporting purposes under the criteria specified in the Continuing Disclosure Agreement. Pursuant to the Continuing Disclosure Agreement, American Airlines has agreed to make available, and the City agrees to use its best efforts to require any future obligated persons to make available financial information and operating data on a timely basis with respect to themselves as required by the Rule. American Airlines will acknowledge the Continuing Disclosure Agreement and agree to make available such information for as long as it remains an obligated person under the criteria specified in the Continuing Disclosure Agreement. Upon expiration of its Airline Agreement, in the absence of another contractual arrangement between the City and American Airlines, American Airlines may cease to be an obligated person under Rule 15c2-12. The City and American Airlines are in material compliance with all of their written undertakings to provide continuing disclosure with respect to airport revenue bonds issued pursuant to the General Ordinance as supplemented through the Fourteenth Supplemental Ordinance.

CERTAIN REFERENCES

All summaries of the Act, the General Ordinance, the Fourteenth Supplemental Ordinance, the Airline Agreements contained in this Official Statement, including the Appendices hereto, are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents for the complete terms and provisions thereof. Copies of these documents are available from the Office of the Director of Finance, 13th Floor, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102.

All quotations from and summaries and explanations of the Constitution and laws of the Commonwealth and Ordinances of the City contained herein do not purport to be complete and are qualified by reference to the official compilations thereof in their entireties and all references to the Bonds are qualified by reference to the complete, definitive forms of the Bonds. All capitalized terms used herein which are not defined herein or in APPENDIX IV shall have the meanings ascribed to them in the Act and the General Ordinance. See APPENDIX IV — "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS."

Any statements made in this Official Statement involving matters of opinion, projections or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The Appendices are integral parts of this Official Statement and must be read together with all parts of this Official Statement.

This Official Statement has been duly approved, executed and delivered by the following officer on behalf of the City.

CITY OF PHILADELPHIA

By: /s/ Rob Dubow
Rob Dubow, Director of Finance

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APPENDIX I

2015 PHILADELPHIA INTERNATIONAL AIRPORT MARKET ANALYSIS AND FINANCIAL PROJECTIONS

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2015 Philadelphia International Airport Market Analysis and Financial Projections

PREPARED FOR:

City of Philadelphia

PREPARED BY:

RICONDO & ASSOCIATES, INC.

AVK CONSULTING, INC.

August 2015

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Introduction

In conjunction with the 2015 Refunding Transaction the City of Philadelphia (the City) has engaged Ricondo & Associates, Inc. to perform a market analysis and forecast of airport activity and AVK Consulting, Inc. to provide projected airline rates and debt service coverage for the Philadelphia International Airport (the Airport or PHL). The Airport has been served by a large and relatively stable scheduled passenger airline base, which has helped promote competitive pricing and scheduling diversity in the Airport's major markets. As of July 2015, scheduled passenger service at the Airport was provided by 18 U.S. carriers and 4 foreign flag carriers with scheduled service to 95 domestic and 37 international destinations (including seasonal service). The Airport, classified by the FAA as a large hub airport based on its percentage of nationwide enplaned passengers,[1] ranked 19th nationwide in 2014.[2] The Airport is currently used as a hub by American Airlines. Other key points regarding historical and projected aviation demand at the Airport are discussed below:

- On December 9, 2013, US Airways and American Airlines merged to become a single airline branded as American Airlines. A single operating certificate was issued in April 2015. The combined airline is the largest airline in the world measured by passenger volumes and seat capacity.
- Between FY 2005 and FY 2015, the total number of enplaned passengers at the Airport ranged from a low of 15.2 million in FY 2010 to a high of 16.1 million in FY 2008.
- International enplaned passengers as a percentage of total enplaned passengers at the Airport increased between FY 2005 and FY 2014, ranging from a low of 12.5 percent in FY 2007 to a high of 14.7 percent in FY 2014.
- The Airport is a major component of American's route network, operating as an important East Coast connecting hub and transatlantic gateway. The share of connecting domestic enplaned passengers at the Airport ranged from a low of 35.1 percent in CY 2005 to a high of 43.5 percent in CY 2011 and CY 2013.
- US Airways, American Airlines, and their regional affiliates enplaned an estimated 11.7 million passengers, or 76.6 percent of the Airport's enplaned passengers in FY 2015.

1 As defined by the FAA, a large hub airport enplanes 1.0 percent or more of nationwide enplaned passengers during a calendar year. One percent of nationwide enplaned passengers equated to approximately 7.7 million passengers in CY 2014, the latest calendar year for which data are available to determine hub size.

2 U.S. DOT Form T-100, June 2015.

- As a result of the Airport's competitive assets, including (1) its prime geographic position as an East Coast transatlantic gateway, (2) the presence of a robust and well developed cargo hub, (3) the size of its local origin and destination (O&D) market, and (4) limited local airport competition, the Airport has remained and should remain an attractive location for a major airline hub, as well as an important O&D market.
- National gross domestic product (GDP) and gross regional product (GRP) are projected to increase at a 2.2 and 1.8 percent compound annual growth rate between 2014 and 2020 respectively. These increases are a factor that is expected to support increasing demand for air service at the Airport.
- Despite American's preeminent market position, competition exists among the airlines serving the most popular routes. Of the Airport's top 20 domestic O&D markets, 17 are served by at least 2 airlines. Additionally, while Southwest Airlines has reduced service at the Airport, it remains the third largest carrier in terms of enplaned passengers and other low-cost carriers have entered the market.
- Based on information from the City and American Airlines, local socioeconomic and demographic factors, the Airport's historical share of U.S. enplaned passengers, the effects of the factors described later in Section 5 and 6, and anticipated trends in airline use of the Airport by American and other airlines, the total number of enplaned passengers at the Airport is projected to increase from 15.3 million in FY 2015 to 16.2 million in FY 2020. This increase represents a compound annual growth rate of 1.1 percent during this period, compared with a 2.6 percent increase forecast nationwide by the FAA.
- Based on projected demand, planned projects, and projected revenues and expenses, debt service coverage exceeds the required 1.50 in each year of the projection, as calculated per the provision of the General Airport Revenue Bond Ordinance.

1. Demographic and Economic Analysis

The demand for air transportation at a particular airport is, to a large degree, dependent upon the demographic and economic characteristics of the geographical area served by the airport (i.e., the air trade area). The relationship between the demographic and economic characteristics of an area and its demand for air travel is particularly true for origin and destination (O&D) passenger traffic, which has historically accounted for a significant portion of airline traffic demand at the Airport.[3] As described in more detail in Section 8 of this report, the methodologies used in developing projections of enplaned passengers at the Airport include analysis of factors impacting the demand for air transportation. Those factors specifically considered include population, employment, income, per capita personal income, and gross regional/domestic product.

This section will provide an overview of recent economic performance and provide projections of key economic variables for the Airport's air trade area, the United States, and certain metropolitan areas. For the purposes of this report, the Airport's "Air Trade Area" is defined as the Philadelphia-Camden-Wilmington, Pennsylvania-New Jersey-Delaware-Maryland Metropolitan Statistical Area (Philadelphia MSA), which is comprised of 11 counties: New Castle County in Delaware; Cecil County in Maryland; Burlington County, Camden County, Gloucester County, and Salem County in New Jersey; and Bucks County, Chester County, Delaware County, Montgomery County, and Philadelphia County in Pennsylvania. Historical and projected data for other large U.S. metropolitan areas is included for comparative purposes but is not used as an input for projected enplanement calculations. Only the Air Trade Area and national economic variables are incorporated into the projection of enplaned passengers.

1.1 Population

With an estimated 6.1 million people in its 11 counties in 2014, the Air Trade Area was the sixth most populated metropolitan area in the United States.[4] The City of Philadelphia, which encompasses the same area as Philadelphia County, had 1.6 million residents, making it the fifth largest city in the United States based on 2014 population estimates. Philadelphia and Montgomery Counties in Pennsylvania are the Air Trade Area's

3 According to recorded U.S. Department of Transportation ticket sample data, O&D passengers accounted for approximately 57.4 percent of total passengers at the Airport in 2014.

4 Source: U.S. Department of Commerce, Bureau of the Census, Population Division, *Annual Estimates of the Resident Population: July 1, 2014*, December 2014.

most populous counties, with 25.6 percent and 13.5 percent, respectively, of the Air Trade Area's total population. In 2014, 67.3 percent of the population of the Air Trade Area resided in the five Pennsylvania counties, 21.9 percent resided in the four New Jersey counties, 9.1 percent resided in the one county in Delaware, and 1.7 percent resided in the one county in Maryland.

Typically, a positive correlation exists between population growth in a local area and airline traffic demand. Historical population data for the Air Trade Area and the United States is presented in **Table 1**. As shown, the population of the Air Trade Area increased from 5,445,186 in 1990 to 5,691,968 in 2000 and to 6,050,412 in 2014. Population growth in the Air Trade Area between 1990 and 2014 (compound annual growth rate of 0.4 percent) was less than that experienced in the nation as a whole (compound annual growth rate of 1.0 percent) during the same period. Population growth in the Air Trade Area over the last decade is comparable with the growth experienced in other major metropolitan areas, including Los Angeles, Chicago, and New York.[5]

Table 1: Historical and Projected Population

	HISTORICAL			PROJECTED	COMPOUND ANNUAL GROWTH RATE			
COUNTY	**1990**	**2000**	**2014**	**2020**	**1990-2000**	**2000-2014**	**1990-2014**	**2014-2020**
New Castle (DE)	443,784	501,837	552,941	575,780	1.2%	0.7%	0.9%	0.7%
Cecil (MD)	71,866	86,448	103,185	111,718	1.9%	1.3%	1.5%	1.3%
Burlington (NJ)	396,180	424,453	453,570	472,680	0.7%	0.5%	0.6%	0.7%
Camden (NJ)	503,524	506,707	514,034	523,794	0.1%	0.1%	0.1%	0.3%
Gloucester (NJ)	231,134	256,524	292,929	310,997	1.0%	1.0%	1.0%	1.0%
Salem (NJ)	65,383	64,177	65,308	66,504	(0.2%)	0.1%	(0.0%)	0.3%
Bucks (PA)	543,091	599,085	630,034	651,965	1.0%	0.4%	0.6%	0.6%
Chester (PA)	377,832	435,303	514,094	545,478	1.4%	1.2%	1.3%	1.0%
Delaware (PA)	548,033	551,536	563,123	572,942	0.1%	0.1%	0.1%	0.3%
Montgomery (PA)	680,066	751,335	817,174	850,828	1.0%	0.6%	0.8%	0.7%
Philadelphia (PA)	1,584,293	1,514,563	1,550,020	1,539,000	(0.4%)	0.2%	(0.1%)	(0.1%)
Air Trade Area	5,445,186	5,691,968	6,056,412	6,221,686	0.4%	0.4%	0.4%	0.4%
United States	249,622,814	282,162,411	318,698,773	336,499,603	1.2%	0.9%	1.0%	0.9%

SOURCE: Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*, April 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

[5] Between 2005 and 2014, population in the metropolitan statistical areas that included the cities of Los Angeles, Chicago, New York, and Philadelphia increased at compound annual growth rates of 0.4 percent, 0.4 percent, 0.5 percent, and 0.4 percent, respectively.

Table 1 also presents population projections, provided by Woods & Poole Economics, Inc., for the Air Trade Area and the United States in 2020.[6] Population in the Air Trade Area is projected to continue increasing at a compound annual growth rate of approximately 0.4 percent, from 6,056,412 in 2014 to 6,221,686 in 2020. Population growth for the nation is expected to grow at an annual rate of 0.9 percent during the same period. The Air Trade Area's lagging projected population growth is not unusual for its geographical region. Second only to Florida as the nation's most child-free region, the Northeast's demographics resemble those of aging Western Europe, and as the region's population ages and domestic outmigration continues, future population growth in the Northeast is expected to be among the slowest in the nation.[7,8]

The Air Trade Area population is expected to increase most rapidly in Cecil County, Maryland (1.3 percent projected growth annually), Chester County, Pennsylvania (1.0 percent projected growth annually), and Gloucester County, New Jersey (1.0 percent projected growth annually), which are the only counties in the Air Trade Area with projected compound annual growth rates above the national average during the projection period. Philadelphia County is the only county in the Air Trade Area expected to experience negative population growth (a decline of 0.1 percent annually) between 2014 and 2020. This negative trend is consistent with historical population in Philadelphia, which has not experienced the same growth as its surrounding areas. Despite positive population growth between 2000 and 2014, Philadelphia County has fewer residents today than in 1990. In fact, the population increase between 2000 and 2010 was the first population growth in Philadelphia County in six decades.

1.2 Per Capita Personal Income

Another key indicator regarding demand for airline travel is the air trade area's wealth, which can be measured by assessing levels of personal income. Personal income—defined as the sum of wages and salaries, other labor income, proprietors' income, rental income of persons, dividend income, personal interest income, and transfer payments, less personal contributions for social insurance—is a composite measurement of market potential and indicates the general level of affluence of local residents. Market potential and the affluence of local residents typically correlate with an area's propensity to travel by air, as well as an area's attractiveness to business and leisure travelers. It should be noted, however, that personal income is not adjusted for the cost of living in a particular area.

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6 Woods & Poole Economics, Inc. provides a national economic model that is used to project county-level socioeconomic data through 2050. The model is updated every year, and the historical data and projections used in this report are from Woods & Poole's *2015 Complete Economic and Demographic Data Source*.

7 The Northeast region is defined here as Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York (excluding New York City), Pennsylvania, Vermont, parts of Virginia, and Washington, D.C..

8 Kotkin, Joel and Mark Schill, "A Map of America's Future: Where Growth Will Be over the Next Decade", *Forbes Magazine*, September 23, 2013.

Table 2 presents historical per capita personal income (in 2009 dollars) in the Air Trade Area and the nation in 2005 through 2014. As shown, per capita personal income in the Air Trade Area was higher than the equivalent measure in the nation each year between 2005 and 2014. Per capita personal income in the Air Trade Area increased at a compound annual growth rate of 1.1 percent between 2005 and 2014, compared with a 1.0 percent compound annual growth rate in the nation over this same period. Table 2 also presents projections of per capita personal income in 2020. Woods & Poole Economics, Inc., projects per capita personal income to continue to be higher in the Air Trade Area than in the nation. Between 2014 and 2020, per capita personal income is projected to increase at a compound annual growth rate of 1.6 percent in the Air Trade Area and 1.5 percent in the nation.

Table 2: Per Capita Personal Income

(In 2009 Dollars)

	PER CAPITA PERSONAL INCOME	
YEAR	**AIR TRADE AREA**	**UNITED STATES**
Historical		
2005	$45,105	$38,899
2010	$46,944	$39,492
2011	$47,918	$40,646
2012	$48,920	$41,674
2013	$48,916	$41,707
2014	$49,662	$42,365
Projected		
2020	$54,723	$46,291
Compound Annual Growth Rate		
2005-2014	1.1%	1.0%
2014-2020	1.6%	1.5%
PERCENTAGE OF HOUSEHOLDS IN INCOME CATEGORIES (2014) BASED ON 2009 DOLLARS		
INCOME CATEGORY	**AIR TRADE AREA**	**UNITED STATES**
Less than $29,999	26.8%	30.3%
$30,000 to $59,999	24.3%	27.3%
$60,000 to $74,999	9.8%	10.2%
$75,000 to $99,999	12.8%	12.2%
$100,000 or More	26.3%	20.0%

SOURCE: Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*, April 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

An additional indicator of the market potential for airline travel demand is the percentage of households in the higher income categories. An examination of this indicator is important because, as income increases, airline travel becomes more affordable and, therefore, generally used more frequently. Table 2 also presents the percentages of households in per capita personal income categories in 2014, as expressed in 2009 dollars, for the Air Trade Area and the United States. As shown, 39.1 percent of households in the Air Trade Area had a per capita personal income of $75,000 or more in 2014, compared with 32.2 percent of households in these income categories in the nation. According to the Bureau of Labor Statistics' 2012 Consumer Expenditure Survey, American households with incomes of $100,000 or more were responsible for the majority (51.5 percent) of total airfare expenditures.[9] Notably, in this higher income category, the discrepancy in the shares of households between the Air Trade Area and the nation is more pronounced, with 26.3 percent of Air Trade Area households having incomes of $100,000 or more in 2014 compared with 20.0 percent of households nationwide.

1.3 Gross Domestic Product

The GDP for the United States as a whole, and its regional equivalent, GRP, are measures of the market value of all final goods and services produced within a particular area for a specific period of time. GDP and GRP are among the broadest measures of the economic health of a particular area and, consequently, the area's potential airline travel demand.

Table 3 presents the historical GRP and GDP for the Air Trade Area and the nation in 2005 through 2014, as expressed in 2009 dollars. As shown, the GRP for the Air Trade Area increased from $318.8 billion in 2005 to $350.3 billion in 2014, a compound annual growth rate of 1.1 percent. In comparison, the GDP for the nation increased at a 1.3 percent compound annual growth rate during that same period.

Table 3 also presents projections of GRP and GDP for 2020. Woods & Poole Economics, Inc. projects the GRP for the Air Trade Area to increase from $350.3 billion in 2014 to $388.9 billion in 2020. This increase represents a compound annual growth rate of 1.8 percent, which is lower than the 2.2 percent compound annual growth rate projected for the nation during this period, but higher than recent historical GRP growth in the Air Trade Area.

9 Calculation from Who's Buying for Travel, based on the Bureau of Labor Statistics' 2012 Consumer Expenditure Survey.

Table 3: Gross Regional/Domestic Product

(In Millions of 2009 Dollars)

	GROSS REGIONAL PRODUCT	GROSS DOMESTIC PRODUCT
YEAR	**AIR TRADE AREA**	**UNITED STATES**
Historical		
2005	$318,773	$14,116,075
2010	$333,995	$14,620,949
2011	$332,442	$14,816,834
2012	$339,577	$15,218,600
2013	$343,994	$15,514,792
2014	$350,325	$15,892,855
Projected		
2020	$388,884	$18,155,067
Compound Annual Growth Rate		
2005-2010	0.9%	0.7%
2010-2014	1.2%	2.1%
2005-2014	1.1%	1.3%
2014-2020	1.8%	2.2%

SOURCE: Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*, April 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

1.4 Employment Trends

Employment growth is another factor that stimulates airline travel demand. Recent employment trends for the Air Trade Area and the United States are presented in **Table 4**. As shown, the Air Trade Area's civilian labor force, defined as the civilian population over the age of 16 that is available for work, increased from approximately 2,916,000 workers in 2005 to approximately 3,024,000 workers in 2014. This increase represents a compound annual growth rate of 0.4 percent in the Air Trade Area's labor force, compared with 0.5 percent compound annual growth in the United States during the same period. After unemployment rates in the Air Trade Area were lower than in the nation between 2005 and 2011, the Air Trade Area's unemployment rate increased to a higher rate than in the nation in 2012 and 2013, before falling below the national unemployment rate again in 2014. Most recently, the Air Trade Area's unemployment level has risen above the nation's unemployment level. In June 2015, the Air Trade Area's nonseasonally-adjusted unemployment rate was 5.6 percent and the nation's was 5.5 percent, both lower than the nonseasonally-adjusted June 2014 unemployment rates (6.3 percent in both the Air Trade Area and the nation).

Table 4: Civilian Labor Force and Unemployment Rates

	CIVILIAN LABOR FORCE (IN THOUSANDS)	
YEAR	AIR TRADE AREA	UNITED STATES
2005	2,916	149,320
2006	2,950	151,428
2007	2,960	153,124
2008	3,007	154,287
2009	2,997	154,142
2010	3,020	153,889
2011	3,027	153,617
2012	3,050	154,975
2013	3,039	155,389
2014	3,024	155,922
June 2015	3,055	158,283
Compound Annual Growth Rate		
2005-2014	0.4%	0.5%
2011-2014	(0.0%)	0.5%
	UNEMPLOYMENT RATES	
YEAR	**AIR TRADE AREA**	**UNITED STATES**
2005	4.7%	5.1%
2006	4.5%	4.6%
2007	4.3%	4.6%
2008	5.3%	5.8%
2009	8.3%	9.3%
2010	8.8%	9.6%
2011	8.5%	8.9%
2012	8.5%	8.1%
2013	7.8%	7.4%
2014	6.1%	6.2%
June 2015	5.6%	5.5%

NOTE: Data are not seasonally adjusted.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, August 2015.
PREPARED BY: Ricondo & Associates, Inc., August 2015.

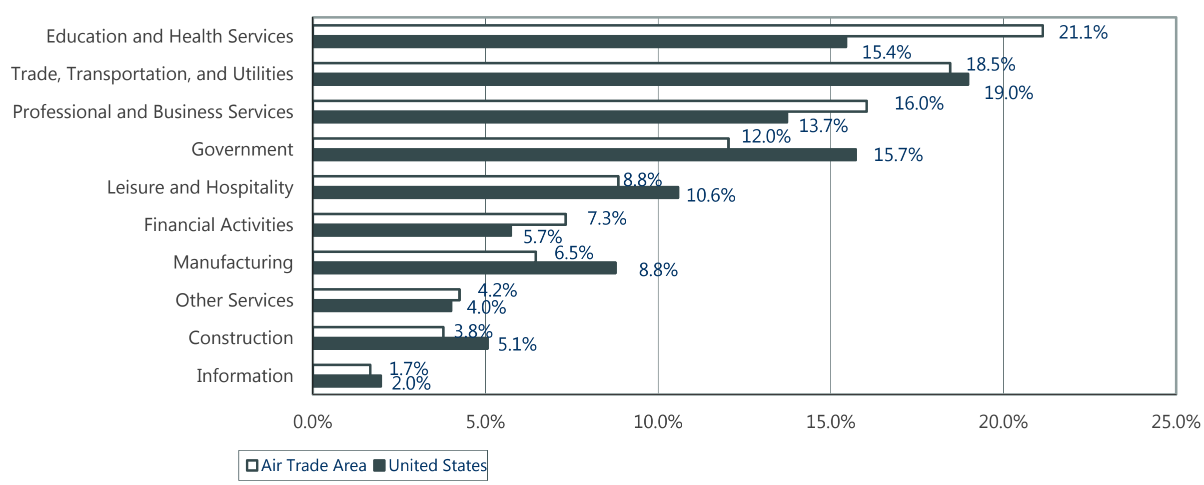
A comparison of nonagricultural employment trends by major industry sector in the Air Trade Area and in the nation for 2005 and 2014 is presented in **Table 5**. As shown, growth in nonagricultural employment in the Air Trade Area was negligible between 2005 and 2014, a period in which national nonagricultural employment increased at a compound annual rate of 0.4 percent.

Table 5: Employment Trends by Major Industry Sector

(Employment in Thousands)

	AIR TRADE AREA			UNITED STATES		
INDUSTRY SECTOR	2005	2014	COMPOUND ANNUAL GROWTH RATE (2005-2014)	2005	2014	COMPOUND ANNUAL GROWTH RATE (2005-2014)
Education and Health Services	500	588	1.8%	17,630	21,475	2.2%
Trade, Transportation, and Utilities	533	514	(0.4%)	25,959	26,384	0.2%
Professional and Business Services	410	446	1.0%	16,954	19,096	1.3%
Government	357	335	(0.7%)	21,804	21,863	0.0%
Leisure and Hospitality	217	246	1.4%	12,816	14,710	1.5%
Financial Activities	220	204	(0.8%)	8,197	7,979	(0.3%)
Manufacturing	230	180	(2.7%)	14,227	12,188	(1.7%)
Other Services	124	118	(0.5%)	5,395	5,573	0.4%
Construction 1/	128	105	(2.1%)	7,964	7,034	(1.4%)
Information 2/	56	46	(2.1%)	3,061	2,740	(1.2%)
Total	2,774	2,782	0.0%	134,007	139,042	0.4%

PERCENT OF 2014 NONAGRICULTURAL EMPLOYMENT



NOTES:

1/ Includes mining and logging employment.

2/ The information sector includes communications, publishing, motion picture and sound recording, and online services.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, July 2015.

PREPARED BY: Ricondo & Associates, Inc., July 2015.

National employment grew in 6 of the 10 industry sectors between 2005 and 2014, with the strongest growth occurring in the education and health services sector, at a compound annual growth rate of 2.2 percent. The most significant contraction in national employment occurred in the manufacturing and construction sectors, at compound annual decreases of 1.7 percent and 1.4 percent, respectively. The Air Trade Area experienced employment growth in just 3 of the 10 industry sectors between 2005 and 2014, with the greatest increase also occurring in the education and health services sector, at a compound annual rate of 1.8 percent. Notably, the 2 other sectors experiencing employment growth in the Air Trade Area were also service sectors: professional and business services (1.0 percent compound annual growth) and leisure and hospitality (1.4 percent compound annual growth). The manufacturing, construction, and information sectors experienced the largest declines in employment in the Air Trade Area between 2005 and 2014, with compound annual decreases of 2.7 percent, 2.1 percent, and 2.1 percent, respectively.

1.5 Employment by Major Industry Sector

According to Select Greater Philadelphia, the Air Trade Area's economy is diverse, with "strengths in life sciences and healthcare, information technology, advanced manufacturing, clean economy, and logistics [that] are complemented by a multitude of professional and business services."[10] The following is a brief summary of employment in the Air Trade Area by industry sector:

- **Education and Health Services –** Employment in education and health services is highly concentrated in the Air Trade Area, accounting for 21.1 percent of total nonagricultural employment in 2014 (compared to 15.4 percent of total nonagricultural employment in the nation). Of the total of those employed in the education and health services sector in the Air Trade Area, approximately 78.9 percent are employed in health care and social services and the remaining 21.1 percent are employed in education. Major employers in the Air Trade Area in this sector include Jefferson Health System, University of Pennsylvania, University of Pennsylvania Health System, Temple University, and Main Line Health. Recent expansion and development of healthcare facilities occurring in the Air Trade Area, include the Children's Hospital of Philadelphia and the University of Pennsylvania Health System's hospital tower.
- **Trade, Transportation, and Utilities –** Employment in the trade, transportation, and utilities sector is similar in the Air Trade Area and the nation (18.5 percent of total nonagricultural employment in the Air Trade Area versus 19.0 percent in the nation). Major employers in the retail trade sector in the Air Trade Area include CVS Caremark, Home Depot, Safeway, Wawa, and Wal-Mart. FedEx, Southeastern Pennsylvania Transportation Authority, UPS, and US Airways are major employers in the Air Trade Area within the transportation sector.
- **Professional and Business Services -** Professional and business services employment is higher in the Air Trade Area than the nation (16.0 percent versus 13.7 percent). Professional and business services

[10] Select Greater Philadelphia is an economic development marketing organization in the Air Trade Area.

include professional, scientific, and technical services; management of companies and enterprises; and administrative and support, waste management, and remediation services.

- **Government –** At 12.0 percent of the Air Trade Area's total nonagricultural employment in 2014, government sector employment is lower in the Air Trade Area than it is in the nation (15.7 percent of total national employment in 2014 was in government). Local government accounted for 68.4 percent, state government accounted for 16.3 percent, and federal accounted for 15.3 percent of total government employment in the Air Trade Area in 2014.
- **Leisure and Hospitality –** Although the travel and tourism industry has a significant effect on the Air Trade Area's economy, leisure and hospitality employment is lower in the Air Trade Area than in the nation, accounting for 8.8 percent of total nonagricultural employment in the Air Trade Area and 10.6 percent in the nation. According to Visit Philadelphia and The Pew Charitable Trusts, 39.2 million people visited Greater Philadelphia (the five-county region that includes Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties) in 2013; a 1.0 percent increase over 2012, generating $27.5 million daily in economic impact for the region—a total of $10.0 billion annually.
- **Financial Activities –** Financial activities employment is higher in the Air Trade Area than in the nation (7.3 percent of total nonagricultural employment in the Air Trade Area versus 5.7 percent in the nation in 2014). Due largely to the elimination of usury laws in Delaware in 1981, the city of Wilmington, located in the Air Trade Area's New Castle County, has become a financial center for the credit card industry. Retail banking is also a significant industry in New Castle County. Bank of America and Wells Fargo each employed over 5,000 workers in the Air Trade Area in 2013. The Air Trade Area is also home to large insurance and investment companies; including Independence BlueCross, the largest health insurer in the Philadelphia area; and the Vanguard Group, a mutual fund manager with headquarters in Valley Forge, Pennsylvania.
- **Manufacturing –** The employment base for manufacturing is lower in the Air Trade Area than in the nation and is concentrated in advanced manufacturing, chemicals, pharmaceuticals, and food. Crown Holdings, the Fortune 500 metal can manufacturer, is headquartered in Philadelphia.
- **Other Services –** Other services employment includes personal and laundry services; repair and maintenance services; religion, grantmaking, civic, professional, and similar organizations; and private household employment. Other services employment in the Air Trade Area and the nation are similarly concentrated.
- **Construction –** Construction employment in the Air Trade Area is smaller relative to construction employment in the nation. In 2014, only 3.8 percent of the Air Trade Area's nonagricultural employment was in construction, compared with 5.1 percent of national nonagricultural employment.
- **Information –** The information sector includes telecommunication service providers, traditional publishing, motion picture and sound recording, broadcasting, software, online services, and data processing. A small sector, information sector employment in the Air Trade Area is 1.7 percent of total nonagricultural employment in 2014. Comcast Corporation, a global media and technology company headquartered in Philadelphia, is one of the Air Trade Area's largest employers, with almost 13,000 workers.

1.6 Business Climate

Although affected less severely than most major metropolitan areas by the 2007-2009 recession (of 100 largest metropolitan areas, the Philadelphia region ranked 29th in best overall economic performance during the recession according to The Brookings Institution's most recent (July 2015) *Metro Monitor* report), Philadelphia has not experienced the same level of economic recovery (ranking 9th worst in overall economic performance during the recovery period, according to the same *Metro Monitor* report).

Despite its slower recovery relative to other metropolitan areas, the business climate in the Air Trade Area offers advantages to new, expanding, and relocating companies. These advantages include a young, educated labor pool; a strategic location; and reasonable business costs. According to the 2014 Competitive Alternatives study conducted by the audit, tax, and advisory firm KPMG, business costs in Air Trade Area are lower than the average nationwide for large metropolitan areas, and, although the area's cost of living is higher than the national average, it is lower than that of other large cities in the northeast, including Washington, D.C., New York, and Boston.[11] Business-friendly corporation law has resulted in the incorporation in the state of Delaware of more than 50 percent of U.S. publicly traded companies.

In its *Roadmap for Growth* report, the Greater Philadelphia Chamber of Commerce notes that the City levies business taxes that currently impede its growth.[12] It is not Pennsylvania's tax laws that are particularly onerous, but rather the taxes on local personal income, sales, and businesses, over and above the State of Pennsylvania's personal income, sales, and business taxes, that make Philadelphia less attractive to businesses. However, state and City tax incentives such as real estate tax abatement programs and Keystone Opportunity Zones appear to have been effective in attracting new businesses and expanding existing businesses.[13] Through the public-private partnership Philadelphia Industrial Development Corporation, Philadelphia successfully transformed its Navy Yard from a former military base in 2000 to an urban industrial space, housing 130 companies and 11,000 employees. About a third of the Navy Yard's tenants use tax incentives that require capital improvements or job creation and nearly two thirds of the tenants are new to Philadelphia.[14]

11 Council for Community and Economic Research, *Cost of Living Index, Annual 2014* (Data based on a survey of 281 urban areas, published January 2015).

12 Greater Philadelphia Chamber of Commerce, *Roadmap for Growth: A Vision for the City of Philadelphia,* 2014.

13 Keystone Opportunity Zones (KOZs) are defined, parcel-specific areas where a KOZ property owner and/or business entity can qualify for waived or reduced city and state tax status. The KOZ program was created by the state in 1999 to encourage investment in areas where little to no development had occurred.

14 Loviglio, Joann, "In Philly, Business Booms Where Battleships Born" Associated Press, February 11, 2013.

Major employers in the Air Trade Area, measured by numbers of employees, are presented in **Table 6**. According to the list prepared by Select Greater Philadelphia, approximately 48 private entities in the Air Trade Area had 4,000 or more employees. The largest employer in the Air Trade Area is Jefferson Health System, with 18,740 employees, followed by the University of Pennsylvania (16,160 employees); the University of Pennsylvania Health System (14,941 employees); Temple University (14,000 employees); and Comcast Corporation (12,858 employees). In addition to the major employers, there are ten Fortune 500 companies with corporate headquarters in the Air Trade Area. The Fortune 500 companies include Amerisource Bergen (ranked 16th in 2014 revenues; a leading drug wholesaler); Comcast (ranked 43rd in 2014 revenues; the world's largest cable and broadcasting company); and E.I. du Pont de Nemours and Company (ranked 87th in 2014 revenues; one of the world's largest chemical companies).[15][16]

Major construction projects underway in Philadelphia include a $350 million dollar project to deepen the Delaware River's main channel from 40 to 45 feet. The project is approximately 70 percent complete as of January 2015 and is on track to be completed in 2017.[17] Construction of Southport, the first new terminal in the Delaware River Port Complex in 50 years, is currently being planned and the first component of its construction is projected to open in 2018. Most notably, Comcast Corporation began construction in the summer of 2014 on a $1.2 billion mixed-use Comcast Innovation and Technology Center in Philadelphia. Upon completion in fall 2017, the 59-story tower is expected to be the tallest building in the United States outside of Chicago and New York, and Comcast Corporation intends to occupy approximately 75 percent of the building's rentable office space.[18] The University of Pennsylvania Health System is also moving forward with construction of a new $1.5 billion hospital tower, which will include 50 operating rooms, a relocated emergency room, and 700 patient beds, nearly doubling the hospital's existing bed count.

1.7 Economic Outlook

Historically, trends in airline travel have been closely correlated with national economic trends, most notably changes in GDP. A brief analysis of short-term economic trends and certain longer-term general economic assumptions, both national and local, which are incorporated into enplaned passenger projections and may influence demand for air service over time, is provided in this section. National GDP is projected to increase at a 2.2 compound annual growth rate between 2014 and 2020, which is expected to support increasing demand for air service. Actual economic activity is likely to differ from this projection, especially on a year-to-year basis, with demand for air service likely reacting in kind.

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15 The remaining 2015 Fortune 500 companies in the Air Trade Area are: Aramark Holdings Corporation (#207); Lincoln National Corporation (#223); Crown Holdings, Inc. (#318); Universal Health Services, Inc. (#324); Campbell Soup Company (#342); UGI Corporation (#349); and Navient Corporation (#463).

16 FORTUNE Magazine, "2015 Fortune 500 Rankings", June 4, 2015.

17 Philadelphia Regional Port Authority, "Port of Philadelphia Reports Stunning 16 Percent Jump in Cargo in 2014, Marking Fifth Consecutive Year of Double Digit Cargo Growth Along City's Delaware River Waterfront", January 29, 2015.

18 Comcast Corporation, "Comcast to Expand Presence with Comcast Innovation and Technology Center," January 15, 2014.

Table 6: Major Employers in the Air Trade Area

EMPLOYER [1/]	NUMBER OF LOCAL EMPLOYEES	PRODUCT OR SERVICE
Jefferson Health System Inc.	18,740	Healthcare and Social Assistance
University of Pennsylvania	16,160	Higher Education
University of Pennsylvania Health System	14,941	Healthcare and Social Assistance
Temple University	14,000	Higher Education
Comcast Corp.	12,858	Media and Technology
Christiana Care Health System	10,500	Hospital and Outpatient
UPS	10,261	Air Freight Express Services
Main Line Health	10,075	Healthcare
Bank of America Corp.	10,000	Finance and Insurance
Drexel University	9,829	Higher Education
Vanguard Group	9,722	Investment Products
Verizon Communications Inc.	9,054	Information — Telecommunications
Einstein Healthcare Network	8,992	Healthcare Services
Temple University Health System	8,975	Healthcare Services
Wells Fargo (includes former Wachovia Bank)	8,870	Finance and Insurance
Southeastern Pennsylvania Transportation Authority	8,800	Transportation and Warehousing
Virtua	8,400	Healthcare Services
Wawa, Inc.	8,333	Retail Trade — Convenience Store
Wal-Mart	7,996	Retail Trade – Discount Department Stores
Siemens Medical Solutions USA, Inc.	7,546	Manufacturing
Reading Health System	7,300	Regional Healthcare System
CVS Caremark Corp.	7,097	Retail Trade
Crozer-Keystone Health System	6,800	Health System
Bayada Home Health Care	6,751	Nursing, Rehabilitative, Therapeutic, Hospice, and Assistive Care
Comcast-Spectacor	6,490	Sports and Entertainment
Wells Fargo	6,472	Financial Services
Genesis Healthcare Corp.	6,376	Healthcare and Social Assistance
Independence Blue Cross	6,335	Regional Health Insurer
Johnson & Johnson — excludes Centocor	6,328	Manufacturing
US Airways[2/]	6,247	Transportation and Warehousing
Home Depot USA Inc	6,113	Retail Trade
Abington Health	6,100	Hospital and Outpatient Services, Health Physicians
E. I. du Pont de Nemours and Company	6,000	Chemical Manufacturing
Mercy Health System	5,943	Catholic Health Services
FedEx Corp.	5,900	Transportation and Warehousing
Sodexho	5,777	Professional and Business Services — Food
GlaxoSmithKline	5,700	Pharmaceutical Manufacturing
Wyeth Pharmaceuticals	5,470	Pharmaceutical Manufacturing
AlliedBarton Security Services	5,340	Security Officers
Thomas Jefferson University	5,263	Higher Education - Medicine
Safeway Inc.	5,190	Retail Trade
NHS Human Services	4,900	Nonprofit Human Services
Sunoco, Inc. (excludes Atlantic Petroleum)	4,700	Manufacturing — Petroleum Refining
CareersUSA	4,683	Full Service Staffing Firm
Boeing	4,500	Manufacturing
Prudential Fox & Roach Realtors/The Trident Group	4,500	Finance and Insurance
Crown Holdings	4,400	Metal Cans and Packaging
University of Delaware	4,171	Higher Education

NOTES:

1/ Select Greater Philadelphia (the source of this employer list) includes Mercer County, NJ, which is not part of the Air Trade Area. Therefore, for companies listed with operations in Mercer County, the number of employees in the Air Trade Area will be lower than the number of local employees listed.

2/ American Airlines acquired US Airways on December 9, 2013.

SOURCE: Select Greater Philadelphia, August 13, 2014; http://www.selectgreaterphiladelphia.com/industries/leading-employers/ (accessed July 2015).
PREPARED BY: Ricondo & Associates, Inc., July 2015.

1.7.1 SHORT-TERM ECONOMIC OUTLOOK

Despite a 0.2 percent decline in real GDP growth in the United States in the first quarter of 2015, the most recently published forecast by the National Association for Business Economics (NABE) indicates that panelists expect economic activity in 2015 to recover from its slow start and end up with positive growth for the year.[19] The median full-year real GDP growth forecasted by the NABE panelists was 2.4 percent for 2015, which is in line with actual real GDP growth in 2014, and 2.9 percent in 2016.[20] The most recent (June 2015) nonseasonally-adjusted monthly unemployment rates were 5.6 percent in the Air Trade Area and 5.5 percent in the nation. The NABE consensus forecast indicates that the national unemployment rate is expected to decrease to an average of 5.4 percent in 2015, and to further decrease to 5.1 percent in 2016.[21]

1.7.2 LONG-TERM ECONOMIC ASSUMPTIONS INCORPORATED IN ENPLANED PASSENGER PROJECTIONS

As described in more detail in Section 8, the methodologies used in developing projections of enplaned passengers at the Airport included (among other methodologies) statistical linear regression modeling, with local and national socioeconomic and demographic factors as independent variables and enplaned passengers as the dependent variable. Socioeconomic factors considered in this analysis included population, employment, personal income (per capita and total), and gross regional/domestic product. For each of these socioeconomic and demographic factors, the regression modeling produced a coefficient that was applied to the projection of the corresponding socioeconomic or demographic factor to provide a projection of future numbers of enplaned passengers.

Table 7 presents the historical 2014 and projected 2020 figures used in the modeling, as well as the compound annual growth rate projected for each independent variable between 2014 and 2020. Woods & Poole projects employment to grow in both the Air Trade Area and the nation at compound annual rates of 1.2 percent and 1.5 percent, respectively, between 2014 and 2020, which is considerably faster than the actual employment growth experienced in the last decade (see Table 5). Projected population growth in the Air Trade Area and the nation is expected to remain relatively consistent with historical growth, with the United States population growing at approximately twice the rate of the Air Trade Area population. Woods & Poole projects U.S. gross domestic product to grow at a higher rate than the Air Trade Area's gross regional product through the projection period. The nation's personal income is also projected to grow at a faster rate than the Air Trade Area's personal income, but the Air Trade Area's slower projected population growth results in its projected per capita personal income growth rate to be higher than the national rate between 2014 and 2020.

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19 Bureau of Economic Analysis, *Gross Domestic Product: First Quarter 2015 (Third Estimate) and Corporate Profits: First Quarter 2015 (Revised Estimate)* News Release June 24, 2015.

20 National Association for Business Economics, *NABE Outlook*, June 2015.

21 National Association for Business Economics, *NABE Outlook*, March 2015.

Table 7: Economic Variables Used in Enplaned Passenger Projections

POPULATION (THOUSANDS)	HISTORICAL 2014	PROJECTED 2020	CAGR
Air Trade Area	6,056	6,222	0.4%
United States	318,699	336,500	0.9%
GDP/GRP (MILLIONS OF 2009 DOLLARS)	**HISTORICAL 2014**	**PROJECTED 2020**	**CAGR**
Air Trade Area	$350,325	$388,884	1.8%
United States	$15,892,855	$18,155,067	2.2%
PERSONAL INCOME (MILLIONS OF 2009 DOLLARS)	**HISTORICAL 2014**	**PROJECTED 2020**	**CAGR**
Air Trade Area	$300,776	$340,467	2.1%
United States	$13,501,635	$15,576,939	2.4%
PER CAPITA PERSONAL INCOME	**HISTORICAL 2014**	**PROJECTED 2020**	**CAGR**
Air Trade Area	$49,662	$54,723	1.6%
United States	$42,365	$46,291	1.5%
EMPLOYMENT (THOUSANDS OF JOBS)	**HISTORICAL 2014**	**PROJECTED 2020**	**CAGR**
Air Trade Area	3,550	3,822	1.2%
United States	185,152	201,959	1.5%

NOTE: CAGR = Compound Annual Growth Rate

SOURCE: Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*, April 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Table 8 contains the same variables presented in Table 8, but also includes data for select major metropolitan areas in the United States. The city-level data provided is for Metropolitan Statistical Areas where US Airways and American Airlines have hubbing operations. Table 8 includes 2005 and 2014 historical data, projected 2020 data, and compounded annual growth rates for the historical and projection periods. Comparison city-data is included only to provide perspective for the Philadelphia data shown in Table 8; it is not used as an input for the projected enplanement calculations.

Table 8: Economic Variables Used in Enplaned Passenger Projections – Other Metropolitan Areas

POPULATION (THOUSANDS)	HISTORICAL 2005	HISTORICAL 2014	PROJECTED 2020	CAGR (2005-2014)	CAGR (2014-2020)
Charlotte	1,934	2,373	2,621	2.3%	1.7%
Chicago	9,276	9,587	9,941	0.4%	0.6%
Dallas	5,777	6,926	7,702	2.0%	1.8%
Los Angeles	12,726	13,210	13,756	0.4%	0.7%
Miami	5,411	5,895	6,344	1.0%	1.2%
New York	19,228	20,028	20,619	0.5%	0.5%
Philadelphia	**5,829**	**6,056**	**6,222**	**0.4%**	**0.4%**
Phoenix	3,775	4,474	4,979	1.9%	1.8%
Washington, DC	5,274	6,027	6,542	1.5%	1.4%
United States	295,517	318,699	336,500	0.8%	0.9%
GDP/GRP (MILLIONS OF 2009 DOLLARS)	**HISTORICAL 2005**	**HISTORICAL 2014**	**PROJECTED 2020**	**CAGR (2005-2014)**	**CAGR (2014-2020)**
Charlotte	$105,386	$127,603	$150,782	2.1%	2.8%
Chicago	$516,512	$553,014	$623,505	0.8%	2.0%
Dallas	$329,832	$427,429	$510,781	2.9%	3.0%
Los Angeles	$715,843	$758,982	$864,534	0.7%	2.2%
Miami	$253,406	$259,743	$302,379	0.3%	2.6%
New York	$1,221,691	$1,364,769	$1,542,773	1.2%	2.1%
Philadelphia	**$318,773**	**$350,325**	**$388,884**	**1.1%**	**1.8%**
Phoenix	$180,329	$199,089	$239,153	1.1%	3.1%
Washington, DC	$382,761	$443,743	$512,693	1.7%	2.4%
United States	$14,116,075	$15,892,855	$18,155,067	1.3%	2.2%
PERSONAL INCOME (MILLIONS OF 2009 DOLLARS)	**HISTORICAL 2005**	**HISTORICAL 2014**	**PROJECTED 2020**	**CAGR (2005-2014)**	**CAGR (2014-2020)**
Charlotte	$74,719	$93,002	$111,394	2.5%	3.1%
Chicago	$406,901	$445,723	$504,748	1.0%	2.1%
Dallas	$236,222	$309,714	$376,781	3.1%	3.3%
Los Angeles	$538,011	$605,875	$691,138	1.3%	2.2%
Miami	$232,083	$252,871	$296,426	1.0%	2.7%
New York	$967,583	$1,124,156	$1,269,591	1.7%	2.0%
Philadelphia	**$262,922**	**$300,776**	**$340,467**	**1.5%**	**2.1%**
Phoenix	$142,437	$164,223	$201,107	1.6%	3.4%
Washington, DC	$292,787	$350,461	$409,212	2.0%	2.6%
United States	$11,495,236	$13,501,635	$15,576,939	1.8%	2.4%
PER CAPITA PERSONAL INCOME	**HISTORICAL 2005**	**HISTORICAL 2014**	**PROJECTED 2020**	**CAGR (2005-2014)**	**CAGR (2014-2020)**
Charlotte	$38,631	$39,200	$42,493	0.2%	1.4%
Chicago	$43,865	$46,494	$50,772	0.6%	1.5%
Dallas	$40,893	$44,715	$48,921	1.0%	1.5%
Los Angeles	$42,275	$45,867	$50,244	0.9%	1.5%
Miami	$42,890	$42,897	$46,725	0.0%	1.4%
New York	$50,322	$56,128	$61,575	1.2%	1.6%
Philadelphia	**$45,105**	**$49,662**	**$54,723**	**1.1%**	**1.6%**
Phoenix	$37,735	$36,707	$40,394	-0.3%	1.6%
Washington, DC	$55,520	$58,152	$62,548	0.5%	1.2%
United States	$38,899	$42,365	$46,291	1.0%	1.5%
EMPLOYMENT (THOUSANDS OF JOBS)	**HISTORICAL 2005**	**HISTORICAL 2014**	**PROJECTED 2020**	**CAGR (2005-2014)**	**CAGR (2014-2020)**
Charlotte	1,187	1,389	1,556	1.8%	1.9%
Chicago	5,514	5,800	6,239	0.6%	1.2%
Dallas	3,641	4,411	4,998	2.2%	2.1%
Los Angeles	7,543	8,080	8,777	0.8%	1.4%
Miami	3,169	3,483	3,865	1.1%	1.8%
New York	10,778	12,007	12,915	1.2%	1.2%
Philadelphia	**3,368**	**3,550**	**3,822**	**0.6%**	**1.2%**
Phoenix	2,250	2,443	2,760	0.9%	2.1%
Washington, DC	3,723	4,090	4,517	1.1%	1.7%
United States	172,557	185,152	201,959	0.8%	1.5%

NOTES: CAGR = Compound Annual Growth Rate

Statistics are from the Metropolitan Statistical Area (MSA) in which each city is included.

SOURCE: Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*, April 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

2. Airlines Serving the Airport

As of July 2015, 18 U.S. airlines provided scheduled passenger service at the Airport, including 4 legacy/mainline airlines,[22] 4 low-cost airlines, and 10 regional airlines providing service for various legacy/mainline airlines. In addition, 4 foreign flag airlines provided scheduled passenger service at the Airport and two all-cargo airlines provided scheduled cargo service at the Airport. **Table 9** lists the airlines serving the Airport as of July 2015.

Table 9: Airlines Serving the Airport as of July 2015

LEGACY/MAINLINE AIRLINES (4)	LOW-COST AIRLINES (4)	REGIONAL AIRLINES (10)	ALL-CARGO AIRLINES (2)
Alaska Airlines	Frontier Airlines	Air Wisconsin (d/b/a US Airways Express)	FedEx
American Airlines 1/	JetBlue Airways	Compass Airlines (d/b/a Delta Connection)	UPS Air Cargo
Delta Air Lines	Southwest Airlines	Envoy Air (d/b/a American Eagle)	
United Airlines	Spirit Airlines	Endeavor Air (d/b/a Delta Connection)	
		GoJet Airlines (d/b/a Delta Connection and United Express)	
		Piedmont Airlines (d/b/a US Airways Express)	
		PSA Airlines (d/b/a US Airways Express)	
FOREIGN FLAG AIRLINES (4)		Republic Airlines (d/b/a US Airways Express)	
Air Canada		Shuttle America (d/b/a Delta Connection and United Express)	
British Airways		Trans States Airlines (d/b/a United Express)	
Lufthansa German Airlines			
Qatar Airways			

NOTE:

1/ American Airlines and US Airways announced plans to merge on February 14, 2013. The merger was completed on December 9, 2013, and a Single Operating Certificate was issued April 8, 2015.

SOURCES: City of Philadelphia; Innovata, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

22 American and U.S. Airways received a single operating certificate in April 2015, however integration of the carriers is ongoing.

Table 10 presents the scheduled passenger airline base at the Airport since FY 2005. Specific factors concerning the scheduled passenger airline base at the Airport are provided below:

- As shown in **Exhibit 1** and **Exhibit 2**, the airlines serving the airport are currently scheduled to provide service to 95 domestic and 37 international destinations.
- On December 9, 2013, American Airlines and US Airways merged as the American Airlines Group, representing the parent companies of both airlines. The combined airlines received a single operating certificate (SOC) on April 8, 2015. US Airways and its US Airways Express affiliates enplaned approximately 11.2 million passengers, or 73.4 percent of all enplaned passengers at the Airport in FY 2015. Combined with American's enplaned passengers at the Airport, these figures increase to approximately 11.7 million and 76.6 percent. The combined airline is currently scheduled to provide service between the Airport and 91 domestic and 36 international destinations.
- In FY 2015, Delta Airlines and its Delta Connection affiliates enplaned approximately 1.1 million passengers at the Airport, or 7.0 percent of total Airport enplaned passengers.
- The Airport has been served by a large and relatively stable scheduled passenger airline base. All of the four primary legacy airlines and several of the low-cost airlines have served the Airport throughout this period.
- Southwest Airlines[23] accounts for the third highest market share at the Airport after US Airways and Delta Air Lines. In FY 2015, Southwest Airlines enplaned 6.9 percent of the total passengers enplaned at the Airport. Other domestic airlines providing scheduled service at the Airport include Spirit Airlines, JetBlue Airways, Alaska Airlines, and Frontier Airlines. International airlines include Air Canada, British Airways, Lufthansa and Qatar.
- UPS operates a major Air Hub at the Airport and uses the facility as a trans-shipment point for cargo.
- A total of eight scheduled passenger airlines, shown in Table 10, provided service at the Airport for the entire period between FY 2005 through FY 2015. Since FY 2005, four additional scheduled passenger airlines have initiated service and continue to serve the Airport.

[23] Southwest and AirTran completed merger integration on December 27, 2014. For the purposes of this report they are treated as a single airline.

Table 10: Historical Scheduled Passenger Airline Base

(Shown by Calendar Year)

AIRLINE [1/]	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 [2/]
Air Canada	●	●	●	●	●	●	●	●	●	●	●
American Airlines [3/]	●	●	●	●	●	●	●	●	●	●	●
British Airways	●	●	●	●	●	●	●	●	●	●	●
Delta Air Lines	●	●	●	●	●	●	●	●	●	●	●
Frontier Airlines [4/]	●	●	●	●	●	●	●	●	●	●	●
Lufthansa German Airlines	●	●	●	●	●	●	●	●	●	●	●
Southwest Airlines [5/]	●	●	●	●	●	●	●	●	●	●	●
United Airlines	●	●	●	●	●	●	●	●	●	●	●
Alaska Airlines								●	●	●	●
JetBlue Airways									●	●	●
Spirit Airlines									●	●	●
Qatar Airways										●	●
Airlines No Longer Serving the Airport											
Virgin America [6/]								●	●	●	●
Caribbean Airlines							●	●			
Air Jamaica	●	●	●	●	●	●	●				
USA 3000	●	●	●	●	●	●	●				
Air France	●	●	●	●	●						
American Trans Air	●										

NOTES:

1/ Where applicable, includes affiliated airlines.

2/ Scheduled during the 12 months of the calendar year.

3/ American Airlines and US Airways announced plans to merge on February 14, 2013. The merger was completed on December 9, 2013, and a Single Operating Certificate was issued April 8, 2015

4/ Midwest Express merged with Frontier Airlines in 2010. The carriers are combined in this table.

5/ Southwest Airlines and AirTran Airways merged on May 1, 2011. The carriers are combined in this table.

6/ Virgin America suspended service at the airport in October 2014.

SOURCES: City of Philadelphia; Innovata, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

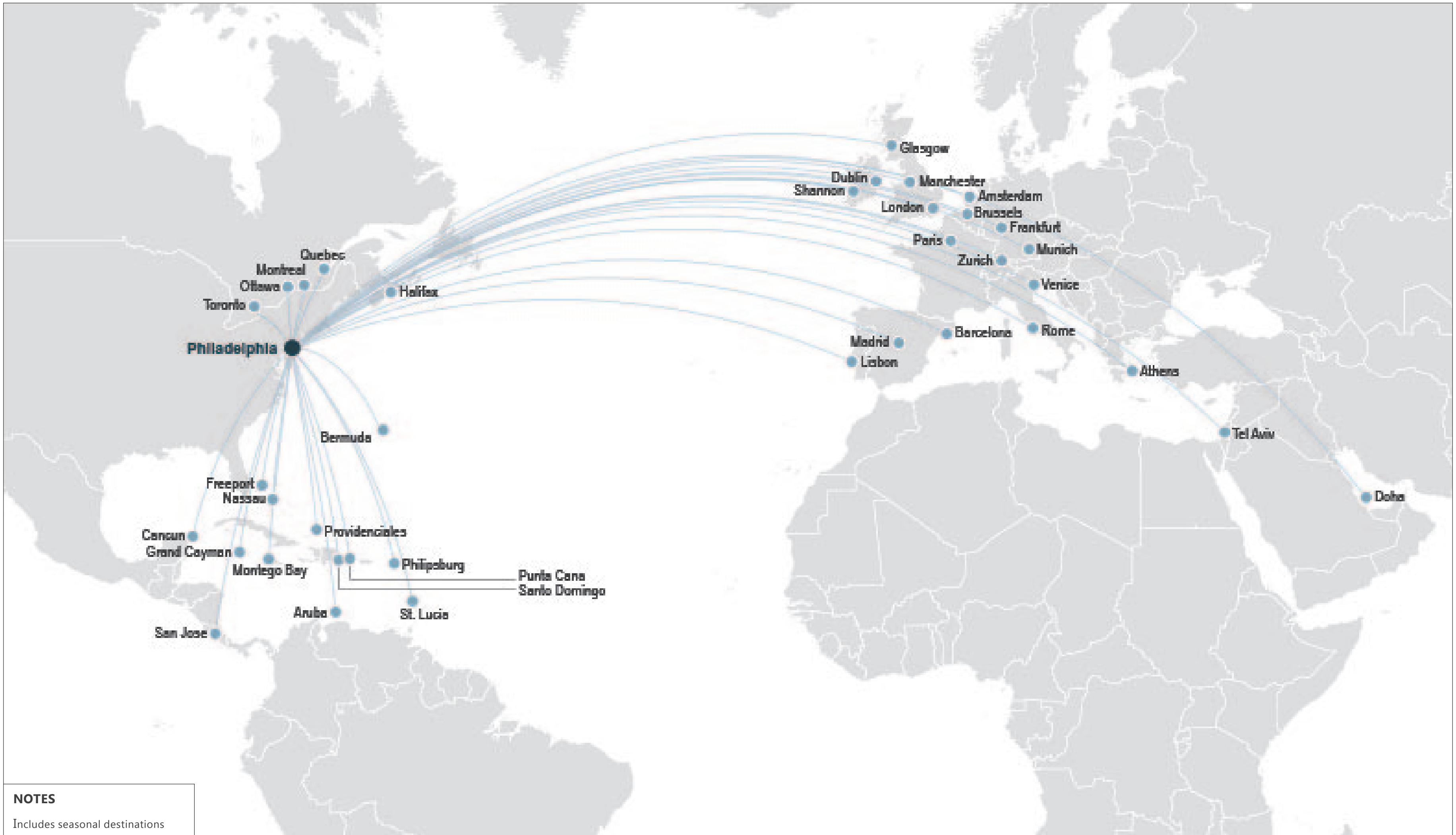
NOTES

Includes seasonal destinations

SOURCE: Innovata, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

EXHIBIT 1

Nonstop Domestic Service



NOTES

Includes seasonal destinations

SOURCE: Innovata, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

EXHIBIT 2

Nonstop International Service

3. Historical Passenger Activity

3.1 Enplaned Passengers

Table 11 presents historical data for enplaned passengers at the Airport and in the U.S. Enplaned passengers at the Airport and in the nation increased at a compound annual growth rate of 1.2 percent per year from FY 2005 through FY 2008. From FY 2008 through FY 2011, the Airport's enplaned passengers decreased a compound annual growth rate of 0.9 percent per year compared with a 1.4 percent compound annual growth rate decrease in nationwide passengers. From FY 2011 through FY 2015, enplaned passengers at the Airport decreased at a compound annual growth rate of 0.5 percent, while enplaned passengers in the nation increased at a compound annual growth rate of 1.9 percent. For the entire period presented in the table, enplaned passengers at the Airport decreased at a compound annual growth rate of 0.1 percent, while enplaned passengers in the nation increased at a compound annual growth rate of 0.7 percent.

Table 11: Historical Enplaned Passengers

FISCAL YEAR	AIRPORT	AIRPORT GROWTH	UNITED STATES TOTAL	U.S. GROWTH	AIRPORT SHARE OF U.S. PASSENGERS
2005	15,490,569	18.4%	722,796,471	6.8%	2.1%
2006	15,574,997	0.5%	733,016,321	1.4%	2.1%
2007	15,851,691	1.8%	750,615,702	2.4%	2.1%
2008	16,052,973	1.3%	749,731,465	(0.1%)	2.1%
2009	15,362,743	(4.3%)	708,483,099	(5.5%)	2.2%
2010	15,193,741	(1.1%)	700,986,099	(1.1%)	2.2%
2011	15,611,583	2.8%	717,932,239	2.4%	2.2%
2012	15,344,126	(1.7%)	728,862,881	1.5%	2.1%
2013	15,215,885	(0.8%)	732,177,224	0.5%	2.1%
2014	15,316,053	0.7%	742,030,721	1.3%	2.1%
2015	15,312,738	(0.2%)	775,912,000	4.6%	2.0%
Compound Annual Growth Rate					
2005 - 2008	1.2%		1.2%		
2008 - 2011	(0.9%)		(1.4%)		
2011 - 2015	(0.5%)		2.0%		
2005 - 2015	(0.1%)		0.7%		

SOURCES: City of Philadelphia; U.S. Department of Transportation, Bureau of Transportation Statistics (U.S. total), July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Further information concerning enplaned passengers at the Airport and comparisons with national trends in enplaned passengers between FY 2005 and FY 2015 are discussed below:

- FY 2005: There were approximately 15.5 million enplaned passengers at the airport in FY 2005. US Airways merged with America West Airlines in September 2005 as a part of bankruptcy reorganization. FY 2005 was also the first full year after US Airways announced the closure of its hub at Pittsburgh International Airport (PIT). As a result of this closure, much of the activity that was previously accommodated at PIT was shifted to other airports in the US Airways network, primarily PHL and Charlotte Douglas International Airport (CLT). In addition to the changes by US Airways, Southwest began service to the Airport in the end of FY 2004 and contributed to growth of total enplaned passengers at the airport during the period.
- FY 2006 through FY 2007: In FY 2006, enplaned passengers at the Airport increased 0.5 percent compared with the nationwide growth of 1.4 percent. In FY 2007 enplaned passengers at the Airport and in the nation increased from their FY 2006 levels by 1.8 percent and 2.4 percent, respectively.
- FY 2008 through FY 2009: The global economic recession, higher fuel prices, and capacity cuts by airlines in FY 2008 and FY 2009 resulted in decreased numbers of enplaned passengers beginning in FY 2008 and continuing further in FY 2009 and later years. Airport enplaned passengers increased by 1.3 percent in FY 2008 (U.S. total enplaned passengers decreased 0.1 percent in FY 2008) and decreased 4.3 percent in FY 2009 (in comparison, U.S. total enplaned passengers decreased 5.5 percent in FY 2009).
- FY 2010: The total number of enplaned passengers at the Airport and nationwide decreased 1.1 percent in FY 2010.
- FY 2011: Recovering from the global economic recession, total enplaned passengers at the Airport increased 2.8 percent, from 15.2 million in FY 2010 to 15.6 million in FY 2011, compared with a nationwide increase of 2.4 percent. US Airways was generally responsible for this growth at the Airport, having increased its number of enplaned passengers by approximately 500,000 in FY 2011. In April 2011, the merger between Southwest Airlines and AirTran Airways was approved. Frontier Airlines initiated service at the Airport in FY 2011, while most other airlines experienced decreases in their enplaned passengers at the Airport during this period.
- FY 2012 through FY 2013: Total Airport enplaned passengers decreased 1.7 percent in FY 2012, followed by an additional decrease of 0.8 percent in FY 2013. During the same timeframe, US Airways' share of enplaned passengers at the Airport increased 1.7 percentage points and 2.1 percent percentage points, respectively. In FY 2012, share of enplaned passengers on Southwest (including AirTran), the second busiest airline serving the Airport at the time, decreased 1.5 percentage points and in FY 2013, decreased 2.5 percentage points, as Southwest continued to reduce its operations at the Airport. Delta's enplaned passenger share at the airport increased 0.2 and 0.1 percentage points in those years.
- FY 2014: Total enplaned passengers increased by approximately 100,000 or 0.7 percent in FY 2014. For American and US Airways, total combined share of enplaned passengers increased 1.0 percentage point, increasing to approximately 11.8 million enplaned passengers. Southwest's enplaned passengers decreased by approximately 230,000 in FY 2014, reducing the airline's share of the

Airport's enplaned passengers from 8.9 percent to 7.3 percent. Spirit grew from approximately 30,000 enplaned passengers in FY 2013 to 130,000 in FY 2014, primarily attributable to a full 12 months of service in FY 2014. Qatar Airways was the only new entrant at the Airport in FY 2014, beginning daily service to Doha in April 2014.

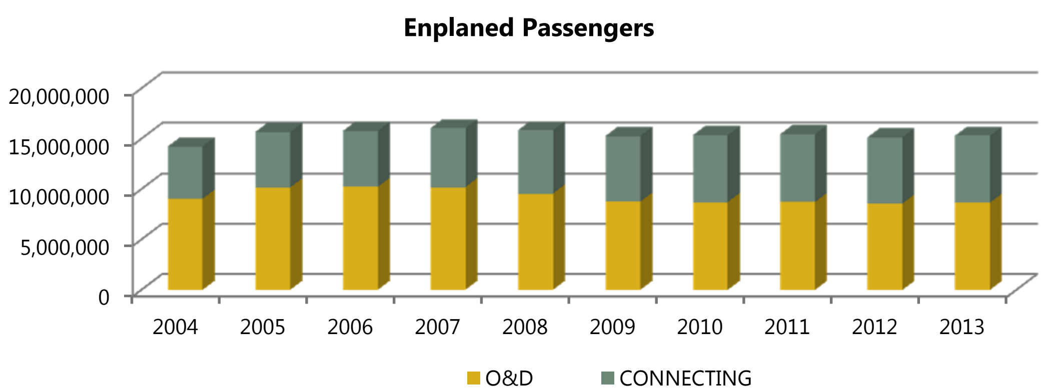
- The 12 months ending May 2015: Total enplaned passengers remained flat at approximately 15.3 million enplaned passengers. Virgin America ended service in October 2014. Frontier increased enplaned passengers from approximately 25,000 to 146,000 during the period.

As previously described, the Airport is a major connecting hub in American's route network. As a result, millions of passengers each year use the Airport as a connection point on their way to their final destinations, while O&D passengers use the Airport as the beginning or end of their travel. **Table 12** presents historical total O&D and connecting passenger data for the Airport for calendar years 2004 through 2014, the latest full year available. As shown, the number of O&D enplaned passengers has exceeded the number of connecting enplaned passengers every year since 2004. There has been a notable increase in the share of connecting passengers since 2004, when connections accounted for 36.4 percent of total enplaned passengers. By 2009, the share of connecting passengers increased to 42.7 percent of total enplaned passengers; however, this share has stabilized and, in 2013 originating passengers accounted for 56.5 percent of all enplaned passengers while the connecting share was 43.5 percent. In 2014 originating passengers increased, and accounted for 57.4 percent of total passengers.

Table 13 presents historical trends in domestic and international enplaned passenger activity at the Airport. International enplaned passengers increased at a compound annual growth rate of 0.3 percent between FY 2005 and FY 2008, compared with a 1.3 percent compound annual growth rate for domestic enplaned passengers. Between FY 2008 and FY 2011, international enplaned passengers increased at a compound annual growth rate of 1.9 percent, while domestic enplaned passengers decreased at a compound annual growth rate of 1.4 percent per year. Between FY 2011 and FY 2015, international enplaned passengers at the Airport increased at a compound annual growth rate of 0.4 percent, while domestic enplaned passengers decreased a compound annual growth rate of 0.6 percent. The highest international share (14.7 percent) of total Airport enplaned passengers during the period occurred in FY 2014 and the lowest share (12.5 percent) occurred in FY 2007. International enplanements decreased by 0.7 percent in FY 2015. The decrease in international enplaned passengers is due primarily to the reduction of capacity by American to Germany and Switzerland – part of a network-wide strategy by the airline to refocus seat capacity in areas where the airline and its airline partners have a strong presence. These reductions were offset in part by a capacity increase by American to London, Heathrow Airport (LHR), a critical oneworld alliance hub that provides access to a large local passenger base as well as to passengers connecting from airports beyond. Additional international capacity growth by Qatar Airways to Doha, Qatar, and by American to Athens, Greece has also helped to partially offset the impact of capacity reductions.

Table 12: Historical Originating and Connecting Enplaned Passengers

CALENDAR YEAR	O&D PASSENGERS	ANNUAL GROWTH	CONNECTING PASSENGERS	ANNUAL GROWTH	TOTAL ENPLANED PASSENGERS	ANNUAL GROWTH	O&D PASSENGER SHARE	CONNECTING PASSENGER SHARE
2004	9,044,425		5,181,840		14,226,265	-	63.6%	36.4%
2005	10,164,535	12.4%	5,505,045	6.2%	15,669,580	10.1%	64.9%	35.1%
2006	10,217,792	0.5%	5,551,332	0.8%	15,769,124	0.6%	64.8%	35.2%
2007	10,199,825	(0.2%)	5,838,358	5.2%	16,038,183	1.7%	63.6%	36.4%
2008	9,565,692	(6.2%)	6,272,824	7.4%	15,838,516	(1.2%)	60.4%	39.6%
2009	8,758,500	(8.4%)	6,517,502	3.9%	15,276,002	(3.6%)	57.3%	42.7%
2010	8,716,777	(0.5%)	6,631,398	1.7%	15,348,175	0.5%	56.8%	43.2%
2011	8,732,356	0.2%	6,728,808	1.5%	15,461,164	0.7%	56.5%	43.5%
2012	8,583,364	(1.7%)	6,571,948	(2.3%)	15,155,312	(2.0%)	56.6%	43.4%
2013	8,652,460	0.8%	6,651,836	1.2%	15,304,296	1.0%	56.5%	43.5%
2014	8,844,660	2.2%	6,564,156	(1.3%)	15,408,816	0.7%	57.4%	42.6%
Compound Annual Growth Rate								
2004 - 2007	4.1%		4.1%		4.1%			
2007 - 2010	(5.1%)		4.3%		(1.5%)			
2010 - 2014	0.4%		(0.3%)		0.1%			
2004 - 2014	(0.2%)		2.4%		0.8%			

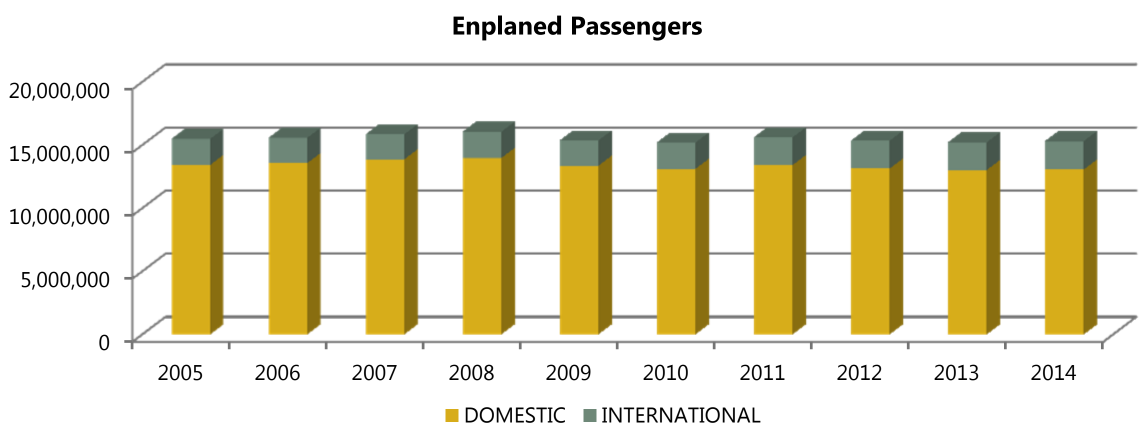


NOTE: Figures may not add to totals shown because of rounding.

SOURCES: City of Philadelphia, July 2015; U.S. Department of Transportation Form 41, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Table 13: Historical Domestic and International Enplaned Passengers

FISCAL YEAR	DOMESTIC PASSENGERS	ANNUAL GROWTH	INTERNATIONAL PASSENGERS	ANNUAL GROWTH	TOTAL ENPLANED PASSENGERS	ANNUAL GROWTH	INTERNATIONAL PASSENGER SHARE
2005	13,427,191	20.4%	2,063,378	6.4%	15,490,569	18.4%	13.3%
2006	13,563,540	1.0%	2,011,457	(2.5%)	15,574,997	0.5%	12.9%
2007	13,864,721	2.2%	1,986,970	(1.2%)	15,851,691	1.8%	12.5%
2008	13,971,056	0.8%	2,081,917	4.8%	16,052,973	1.3%	13.0%
2009	13,357,446	(4.4%)	2,005,297	(3.7%)	15,362,743	(4.3%)	13.1%
2010	13,113,239	(1.8%)	2,080,502	3.8%	15,193,741	(1.1%)	13.7%
2011	13,407,158	2.2%	2,204,425	6.0%	15,611,583	2.8%	14.1%
2012	13,134,251	(2.0%)	2,209,875	0.2%	15,344,126	(1.7%)	14.4%
2013	13,021,515	(0.9%)	2,194,370	(0.7%)	15,215,885	(0.8%)	14.4%
2014	13,059,804	0.3%	2,256,249	2.8%	15,316,053	0.7%	14.7%
2015	13,072,574	0.1%	2,240,164	(0.7%)	15,312,738	(0.0%)	14.6%
Compound Annual Growth Rate							
2005 - 2008	1.3%		0.3%		1.2%		
2008 - 2011	(1.4%)		1.9%		(0.9%)		
2011 - 2015	(0.6%)		0.4%		(0.5%)		
2005 - 2015	(0.3%)		0.8%		(0.1%)		



SOURCE: City of Philadelphia, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

3.2 Enplaned Passengers by Airline

Table 14 presents the historical shares of enplaned passengers at the Airport by airline for FY 2011 through FY 2015. In each year, US Airways and American Airlines together maintained a market share of at least 72.5 percent. Between FY 2011 and FY 2014, Southwest (including AirTran) had the second highest market share; Southwest's market share decreased from 12.9 percent in FY 2011 to 11.4 percent in FY 2012. In FY 2013, Southwest's market share declined to 8.9 percent and to 7.3 percent in FY 2014. Southwest's market share declined further to 6.9 percent in FY 2015 as the carrier continues to allocate system wide capacity to support growth at Washington-Reagan, New York-LaGuardia and Dallas-Love Field.

In FY 2015, US Airways and American together accounted for approximately 11.7 million enplaned passengers, or 76.6 percent of enplaned passengers at the Airport. Delta, the second largest carrier at the Airport in FY 2015, accounted for approximately 1.1 million enplaned passengers, or 7.0 percent of the total at the Airport.

Table 14: Historical Total Enplaned Passengers by Airline

AIRLINE [1/]	FY 2011 ENPLANED PASSENGERS	FY 2011 SHARE	FY 2012 ENPLANED PASSENGERS	FY 2012 SHARE	FY 2013 ENPLANED PASSENGERS	FY 2013 SHARE	FY 2014 ENPLANED PASSENGERS	FY 2014 SHARE	FY 2015 ENPLANED PASSENGERS	FY 2015 SHARE
American/US Airways [2/]										
American Airlines	592,470	3.8%	551,081	3.6%	519,110	3.4%	551,868	3.6%	480,871	3.1%
US Airways	10,730,818	68.7%	10,795,412	70.4%	11,030,619	72.5%	11,230,061	73.3%	11,242,762	73.4%
Subtotal American/US Airways	**11,323,288**	72.5%	**11,346,493**	73.9%	**11,549,729**	75.9%	**11,781,929**	76.9%	**11,723,633**	76.6%
Other Airlines										
Delta Air Lines	1,051,219	6.7%	1,063,169	6.9%	1,059,638	7.0%	1,093,845	7.1%	1,071,866	7.0%
Southwest Airlines [3/]	2,007,766	12.9%	1,752,816	11.4%	1,350,819	8.9%	1,116,209	7.3%	1,059,963	6.9%
United Airlines [4/]	832,230	5.3%	781,795	5.1%	735,940	4.8%	645,520	4.2%	611,799	4.0%
Frontier Airlines	74,563	0.5%	92,981	0.6%	51,256	0.3%	24,891	0.2%	190,893	1.2%
Spirit Airlines		0.0%		0.0%	30,747	0.2%	129,417	0.8%	142,411	0.9%
JetBlue Airways		0.0%		0.0%	15,502	0.1%	116,655	0.8%	123,511	0.8%
British Airways	107,276	0.7%	114,185	0.7%	110,271	0.7%	112,422	0.7%	120,461	0.8%
Lufthansa German Airlines	60,185	0.4%	51,403	0.3%	54,906	0.4%	63,334	0.4%	70,438	0.5%
Qatar Airways		0.0%		0.0%		0.0%	18,299	0.1%	57,650	0.4%
Alaska Airlines		0.0%	2,790	0.0%	47,617	0.3%	54,569	0.4%	56,514	0.4%
Air Canada	49,839	0.3%	52,515	0.3%	53,728	0.4%	56,524	0.4%	56,038	0.4%
Virgin America		0.0%	38,878	0.3%	155,152	1.0%	97,932	0.6%	26,566	0.2%
Other [5/]	105,217	0.7%	47,101	0.3%	580	0.0%	4,507	0.0%	995	0.0%
Subtotal Other Airlines	**4,288,295**	27.5%	**3,997,633**	26.1%	**3,666,156**	24.1%	**3,534,124**	23.1%	**3,589,105**	23.4%
Airport Total	**15,611,583**	**100.0%**	**15,344,126**	**100.0%**	**15,215,885**	**100.0%**	**15,316,053**	**100.0%**	**15,312,738**	**100.0%**

NOTES:

Figures may not add to totals shown due to rounding.

1/ Includes regional affiliated airlines, as applicable.

2/ American Airlines and US Airways merged on December 9, 2013, and a Single Operating Certificate was awarded April 2015.

3/ Southwest Airlines and AirTran Airways merged on May 1, 2011, historical enplaned passengers for these airlines are combined in this table.

4/ United Airlines and Continental Airlines merged in 2010, historical enplaned passengers for these airlines are combined in this table.

5/ Includes airlines with minimal market shares or that may not operate at the Airport as of Fiscal Year 2014.

SOURCE: City of Philadelphia, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

4. Historical Airline Service Characteristics

4.1 Origin and Destination Markets

An important airport characteristic is the distribution of its O&D markets, which is a function of airline travel demand and available services and facilities. **Table 15** presents data on the Airport's top 20 domestic O&D markets in CY 2014, as measured by numbers of O&D passengers. The top 20 markets accounted for approximately 62.7 percent of total domestic O&D passengers at the Airport. As of July 2015, all of the top 20 markets had nonstop airline service from the Airport. Additionally, 17 of the Airport's top 20 O&D markets were served by an airline other than American Airlines. Although American is the primary airline serving 17 of the 20 top markets, the secondary airlines have 20 percent or higher market shares in 13 markets. US Airways carried 50 percent or more of total O&D passengers in 15 markets (nonstop or with a connection).

Table 16 presents the top 25 international markets for the Airport, based on scheduled nonstop departing seats in FY 2015. London-Heathrow Airport (LHR) was the top international market in terms of available seat capacity, with a total of approximately 290,000 scheduled departing seats. Other European markets (Frankfurt [FRA], Paris-de Gaulle [CDG], Madrid [MAD], Rome [FCO], and Tel Aviv [TLV]), Middle Eastern markets (Doha [DOH]), North American markets (Toronto [YYZ] and Cancun [CUN]), and Caribbean markets (Punta Cana [PUJ]) are included in the top 10 international markets for the Airport, with each market served by more than 93,000 scheduled departing seats in FY 2015. The large number of departing seats to European and Western Hemisphere markets reinforces the Airport's important role serving connecting passengers traveling to international destinations.

Table 15: Top 20 Domestic Origin and Destination Markets

(Passengers Per Day, Each Way)

RANK	MARKET	O&D PASSENGERS (PDEW)	PERCENTAGE OF O&D PASSENGERS	PRIMARY AIRLINE	MARKET SHARE	SECONDARY AIRLINE	MARKET SHARE	NONSTOP SERVICE
1	Orlando	1,395	6.9%	American	58.9%	Southwest	36.4%	●
2	Chicago [1]	1,158	5.7%	American	51.9%	Southwest	24.6%	●
3	Boston	978	4.8%	American	72.2%	JetBlue	27.5%	●
4	Atlanta	883	4.4%	Delta	55.1%	American	27.1%	●
5	Los Angeles	841	4.2%	American	63.0%	Virgin America	13.0%	●
6	Las Vegas	813	4.0%	American	58.9%	Spirit	17.4%	●
7	Dallas [2]	790	3.9%	American	72.8%	Spirit	16.4%	●
8	San Francisco	732	3.6%	American	53.1%	United	29.6%	●
9	Ft. Lauderdale	665	3.3%	American	64.5%	Southwest	30.2%	●
10	Tampa	644	3.2%	American	63.7%	Southwest	29.3%	●
11	Denver	544	2.7%	American	43.0%	Southwest	31.4%	●
12	Miami	463	2.3%	American	96.3%	Delta	2.5%	●
13	Phoenix	445	2.2%	American	68.0%	Southwest	21.6%	●
14	Houston [3]	393	1.9%	American	35.0%	United	33.2%	●
15	Seattle	359	1.8%	American	48.0%	Alaska	29.1%	●
16	West Palm Beach	350	1.7%	American	73.7%	Southwest	19.7%	●
17	San Diego	341	1.7%	American	56.0%	Southwest	17.6%	●
18	Minneapolis/St. Paul	313	1.5%	Delta	49.9%	American	32.7%	●
19	Ft. Myers	299	1.5%	American	74.4%	Southwest	19.4%	●
20	Nashville	298	1.5%	Southwest	46.3%	American	46.1%	●
Other O&D Markets		7,545	37.3%					
Domestic O&D Passengers		**20,251**						

NOTES: Figures may not add due to rounding. PDEW= Per Day Each Way

1/ Includes Chicago O'Hare (ORD) and Chicago Midway (MDW) International Airports.

2/ Includes Dallas/Fort Worth International Airport (DFW) and Dallas Love Field (DAL).

3/ Includes Bush Intercontinental Airport/Houston (IAH) and William P. Hobby Airport (HOU).

SOURCE: U.S. Department of Transportation, Origin & Destination Survey of Airline Passenger Traffic, Domestic, July 2015.
PREPARED BY: Ricondo & Associates, Inc., August 2015.

Table 16: Top 25 International Markets – Scheduled Departing Seats in FY 2015

RANK	MARKET	AIRPORT CODE	REGION/ CONTINENT	TOTAL INTERNATIONAL SCHEDULED SEATS
1	London (Heathrow), England	LHR	Europe	291,554
2	Frankfurt, Germany	FRA	Europe	214,200
3	Toronto, Ontario Canada	YYZ	North America	211,667
4	Cancun, Mexico	CUN	North America	190,739
5	Punta Cana, Dominican Republic	PUJ	North America	130,485
6	Paris, France	CDG	Europe	120,351
7	Doha, Qatar	DOH	Middle East	106,928
8	Madrid, Spain	MAD	Europe	98,916
9	Tel Aviv, Israel	TLV	Europe	93,912
10	Rome, Italy	FCO	Europe	93,498
11	Manchester, England	MAN	Europe	92,106
12	Montego Bay, Jamaica	MBJ	North America	91,835
13	Munich, Germany	MUC	Europe	90,999
14	Montreal, Canada	YUL	North America	89,700
15	Dublin, Ireland	DUB	Europe	77,644
16	Venice, Italy	VCE	Europe	64,401
17	Brussels, Belgium	BRU	Europe	59,112
18	Amsterdam, Netherlands	AMS	Europe	58,960
19	Barcelona, Spain	BCN	Europe	58,767
20	Halifax, Nova Scotia Canada	YHZ	North America	53,107
21	Nassau, Bahamas	NAS	North America	44,765
22	Ottawa, Ontario Canada	YOW	North America	42,950
23	Athens, Greece	ATH	Europe	42,570
24	Zurich, Switzerland	ZRH	Europe	36,630
25	Bermuda	BDA	North America	34,258

NOTE: Scheduled international service in fiscal year 2015.

SOURCE: Innovata, July 2015.

PREPARED BY: Ricondo & Associates, Inc., July 2015.

4.2 Low-Cost Airlines

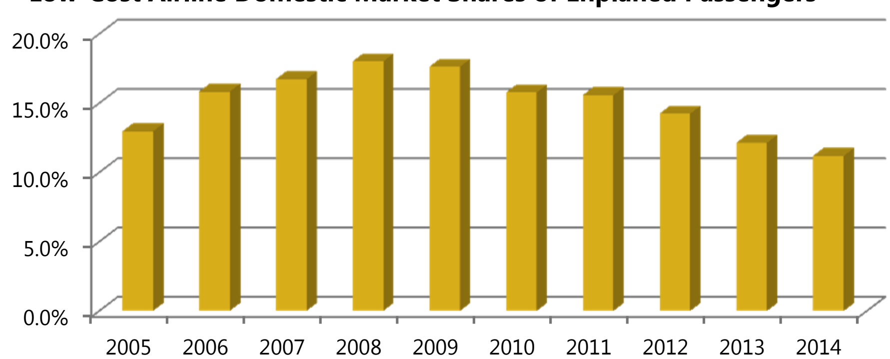
In addition to the availability of service to accommodate domestic and international demand, airline service at an airport can also be characterized by the availability of competitive airfares. At airports where hubbing airlines maintain significant market shares of activity, service provided by low-cost airlines can complement overall airline service and also stimulate demand. **Table 17** presents historical data on domestic passengers enplaned by the low-cost airlines serving the Airport in FY 2005 through FY 2015. As shown, between FY 2005 and FY 2008, the number of low-cost airline domestic enplaned passengers increased by a compound annual growth rate of 13.1 percent, while the total number of Airport domestic enplaned passengers increased by a compound annual growth rate of 1.3 percent. During this period, Southwest, AirTran, and USA 3000 were the only low-cost airlines serving the Airport. Between FY 2008 and FY 2011, the number of low-cost airline domestic enplaned passengers at the Airport decreased by a compound annual growth rate of 6.0 percent, while the total number of Airport domestic enplaned passengers decreased by a compound annual growth rate of 1.4 percent. Southwest's operations at the Airport peaked in 2009, before the airline began gradually reducing service at the Airport and focusing capacity in new cities, such as Boston and New York (LaGuardia Airport), and the airline's focus city, Baltimore. In 2011, Frontier Airlines joined Southwest and AirTran as a low-cost airline serving the Airport.

Between FY 2011 and FY 2015, the number of low-cost airline domestic enplaned passengers decreased by a compound annual growth rate of 7.8 percent, while the total number of Airport domestic enplaned passengers decreased by a compound annual growth rate of 0.6 percent. While the decrease in low-cost airline enplaned passengers can be attributed to Southwest's continued reduction of capacity at the Airport, the low-cost airline market has become increasingly competitive with the initiation of scheduled service at the Airport by JetBlue Airways and Spirit Airlines in 2013. Virgin America began service at the Airport in 2012; however, the airline indefinitely suspended service at the Airport in October 2014. Alaska Airlines, while not a low-cost airline, began service at the Airport in 2012, introducing another competitor into the market. Despite Virgin America's decision to exit the Airport in October 2014, during FY 2015 low-cost carrier enplaned passengers increased by 3.7 percent. In percentage terms, Frontier provided the largest year-over-year growth at the airport, increasing from 0.2 percent of total enplaned passengers in FY 2014 to 1.2 percent of total enplaned passengers in FY 2015.

Table 17: Historical Low-Cost Airline Market Shares

FISCAL YEAR	LOW-COST AIRLINE DOMESTIC ENPLANED PASSENGERS	ANNUAL GROWTH	TOTAL AIRPORT DOMESTIC ENPLANED PASSENGERS	TOTAL AIRPORT GROWTH	LOW-COST AIRLINE MARKET SHARE
2005	1,740,088		13,427,191		13.0%
2006	2,146,675	23.4%	13,563,540	1.0%	15.8%
2007	2,318,404	8.0%	13,864,721	2.2%	16.7%
2008	2,515,692	8.5%	13,971,056	0.8%	18.0%
2009	2,353,645	(6.4%)	13,357,446	(4.4%)	17.6%
2010	2,067,831	(12.1%)	13,113,239	(1.8%)	15.8%
2011	2,087,615	1.0%	13,407,158	2.2%	15.6%
2012	1,870,136	(10.4%)	13,134,251	(2.0%)	14.2%
2013	1,580,527	(15.5%)	13,021,515	(0.9%)	12.1%
2014	1,461,996	(7.5%)	13,059,804	0.3%	11.2%
2015	1,507,407	3.7%	13,072,574	(0.1%)	11.5%
Compound Annual Growth Rate					
2005 - 2008	13.1%		1.3%		
2008 - 2011	(6.0%)		(1.4%)		
2011 - 2015	(7.8%)		(0.6%)		
2005 - 2015	(1.4%)		(0.3%)		

Low-Cost Airline Domestic Market Shares of Enplaned Passengers



NOTES: Figures may not add to totals shown because of rounding. Low-cost airlines include AirTran Airways, ATA Airlines, Frontier Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines, USA 3000, and Virgin America.

SOURCES: City of Philadelphia, June 2015, U.S. Department of Transportation, Origin & Destination Survey of Airline Passenger Traffic, Domestic, July 2015.

PREPARED BY: Ricondo & Associates, Inc., July 2015.

4.3 Mainline and Regional Airline Traffic

Table 18 presents enplaned passengers on mainline aircraft, flying with more than 60 seats, and regional and commuter aircraft operated between FY 2005 and FY 2015. As shown, regional airline-enplaned passengers increased at a compound annual growth rate of 7.6 percent over the period, while mainline airline-enplaned passengers decreased at a compound annual growth rate of 2.2 percent. With the exception of FY 2012 and FY 2014, regional airline-enplaned passengers at the Airport increased every year of the period shown, with year-over-year increases ranging from 1.4 percent in FY 2015 to 43.7 percent in FY 2006 when US Airways transferred regional service from PIT to the Airport. Higher regional airline-enplaned passenger growth rates over the period resulted in the share of regional airline-enplaned passengers at the Airport increasing from 14.5 percent in FY 2005 to 30.4 percent in FY 2015. In FY 2015, the number of regional airline-enplaned passengers grew by 1.4 percent. Growth in the number of regional airline-enplaned passengers at the Airport over time reflects a similar nationwide trend in which legacy mainline airlines were increasing service provided by their affiliated regional airlines operating commuter aircraft, such as 50- to 70-seat regional jet aircraft. In FY 2014, American announced new orders for large narrow body aircraft to replace older and less fuel efficient aircraft, as well as its intention to transition away from smaller commuter aircraft (50 seats and less) in favor of larger regional jet aircraft. According to the agreement negotiated between American and its unions, the airline is able to operate regional aircraft with 76 seats or less, up to a number not exceeding 65 percent of the mainline airline's narrow body aircraft fleet.

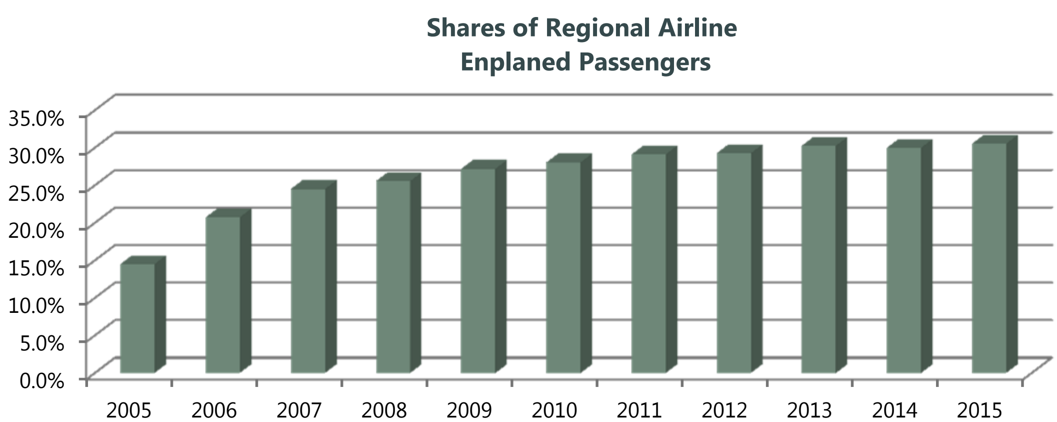
4.4 Cargo Operations

United Parcel Service (UPS) operates an Air Hub at the Airport. The Air Hub is a regional cargo facility that connects the UPS network with mid-Atlantic and European markets. The regional Air Hub located at the Airport is responsible for ensuring coverage of the UPS domestic cargo market, as well as the potential for expansion of network cargo capacity. Due to the inherent costs of air transport, demand for air cargo is largely driven by overnight and expedited services, primarily high-value, time-sensitive items. While the Air Hub provides access to external markets, it also serves a broad spectrum of air-eligible shippers that produce a fairly stable base of commodities, including machinery manufacturers, electronic component manufacturers, and pharmaceutical companies in the Air Trade Area.

Additionally, passenger airlines carry belly cargo to and from the Airport. In April 2015, American opened a $5.0 million 24,000-square foot pharmaceutical cargo cold storage facility at the Airport. **Table 19** presents the historical air cargo tonnage, (both freight and mail), at the Airport for FY 2005 through FY 2015. As shown in the table, total cargo over this period decreased at a compound annual rate of 3.7 percent, partly due to reduced nationwide demand for overnight and expedited cargo services. As shown in **Table 20**, the Air Hub at the Airport currently ranks second among UPS's continental U.S. Air Hubs in terms of destinations served, and third in terms of departing cargo weight. In addition to UPS, FedEx also serves the Airport.

Table 18: Historical Enplaned Passengers – Mainline vs. Regional Airline Aircraft

FISCAL YEAR	MAINLINE AIRLINE ENPLANED PASSENGERS	ANNUAL GROWTH	REGIONAL AIRLINE ENPLANED PASSENGERS	ANNUAL GROWTH	TOTAL ENPLANED PASSENGERS	ANNUAL GROWTH	REGIONAL AIRLINE SHARE
2005	13,242,249		2,248,320		15,490,569		14.5%
2006	12,343,672	(6.8%)	3,231,325	43.7%	15,574,997	0.5%	20.7%
2007	11,964,960	(3.1%)	3,886,731	20.3%	15,851,691	1.8%	24.5%
2008	11,947,066	(0.1%)	4,105,907	5.6%	16,052,973	1.3%	25.6%
2009	11,181,231	(6.4%)	4,181,512	1.8%	15,362,743	(4.3%)	27.2%
2010	10,927,418	(2.3%)	4,266,323	2.0%	15,193,741	(1.1%)	28.1%
2011	11,064,043	1.3%	4,547,540	6.6%	15,611,583	2.8%	29.1%
2012	10,850,781	(1.9%)	4,493,345	(1.2%)	15,344,126	(1.7%)	29.3%
2013	10,607,786	(2.2%)	4,608,099	2.6%	15,215,885	(0.8%)	30.3%
2014	10,719,719	1.1%	4,596,334	(0.3%)	15,316,053	0.7%	30.0%
2015	10,651,748	(0.6%)	4,660,990	1.4%	15,312,738	(0.0%)	30.4%
Compound Annual Growth Rate							
2005 - 2008	(3.4%)		22.2%		1.2%		
2008 - 2011	(2.5%)		3.5%		(0.9%)		
2011 - 2015	(0.9%)		0.6%		(0.5%)		
2005 - 2015	(2.2%)		7.6%		(0.1%)		



NOTE: Figures may not add to totals shown because of rounding.

SOURCE: City of Philadelphia, July 2015.

PREPARED BY: Ricondo & Associates, Inc., July 2015.

Table 19: Historical Air Cargo

FISCAL YEAR	FREIGHT	MAIL	TOTAL	GROWTH
2005	599,758	24,447	624,205	5.3%
2006	575,747	22,408	598,155	(4.2%)
2007	571,452	18,216	589,668	(1.4%)
2008	575,640	22,181	597,821	1.4%
2009	475,365	24,692	500,057	(16.4%)
2010	440,495	20,544	461,039	(7.8%)
2011	449,683	23,937	473,620	2.7%
2012	416,731	27,151	443,882	(6.3%)
2013	388,383	28,285	416,668	(6.1%)
2014	395,661	29,545	425,206	2.0%
2015	402,194	26,681	428,875	0.9%
Compound Annual Growth Rate				
2005 - 2008	(1.4%)	(3.2%)	(1.4%)	
2008 - 2011	(7.9%)	2.6%	(7.5%)	
2011 - 2015	(2.8%)	2.7%	(2.5%)	
2005 - 2015	(3.9%)	0.9%	(3.7%)	

SOURCE: City of Philadelphia, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Table 20: Comparison of Continental U.S. UPS Air Hubs in CY 2014

(Sorted by Destinations)

AIRPORT	NUMBER OF DESTINATIONS	ANNUAL DEPARTING CARGO (MILLIONS OF POUNDS)
Louisville International (SDF)	113	2,633
Philadelphia International (PHL)	**39**	**307**
LA/Ontario International (ONT)	31	363
Miami International (MIA)	23	210
Dallas/Fort Worth International (DFW)	25	180

SOURCE: U.S. Department of Transportation T100 Database, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

5. Section 4: Historical Aircraft Operations and Landed Weight

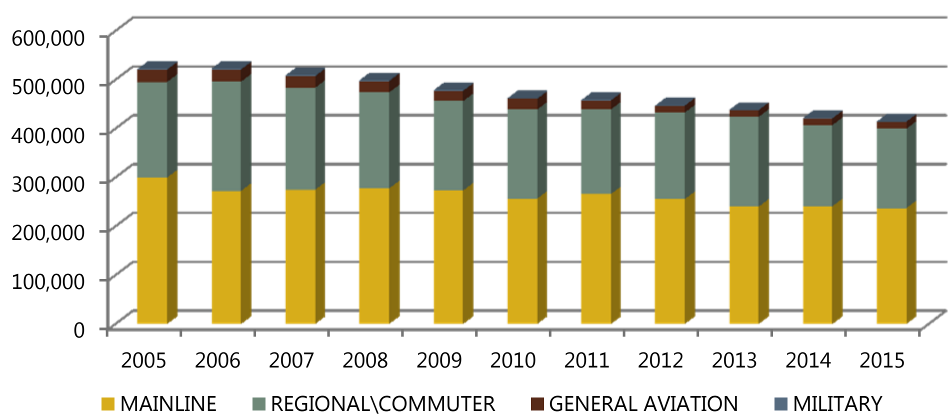
Table 21 presents historical aircraft operations at the Airport between FY 2005 and FY 2015. The categories of aircraft operations shown conform to the categories reported by the City. Total aircraft operations at the Airport decreased at a compound annual growth rate of 2.3 percent during the period. Mainline operations peaked at 299,912 in FY 2005 and have since decreased to 237,788 operations in FY 2015, representing a compound annual growth rate of 2.3 percent. The decrease in mainline aircraft operations during this period was mainly attributable to legacy airlines shifting of service to regional jets, and the decision by Southwest to reassign capacity from the Airport to other markets. During the same period, regional/commuter aircraft operations (aircraft with fewer than 61 seats) decreased at a compound annual growth rate of 1.9 percent. The number of regional/commuter aircraft operations peaked at 223,673 in FY 2006 and decreased to 161,386 in FY 2015. The decrease in regional/commuter aircraft operations can be, in part, attributed to the increased use of larger regional aircraft, which are replacing some aircraft with 50 seats or fewer.

Table 22 presents the historical shares of landed weight by the airlines serving the Airport between FY 2011 and FY 2015. As shown, total landed weight at the Airport decreased from approximately 22.0 million 1,000-pound units in FY 2011 to approximately 20.8 million 1,000-pound units in FY 2015, reflecting the decrease in aircraft operations. Similar to enplaned passenger share growth, the share of landed weight for US Airways and American Airlines, along with their regional affiliates, increased from 65.0 percent in FY 2011 to 69.6 percent in FY 2015. All-cargo airlines accounted for approximately 9.0 percent of the Airport's total landed weight between FY 2011 and FY 2015.

Table 21: Historical Aircraft Operations

FISCAL YEAR	MAINLINE	REGIONAL/ COMMUTER	GENERAL AVIATION	MILITARY	TOTAL	GROWTH
2005	299,912	195,575	25,200	1,313	522,000	13.6%
2006	272,576	223,673	24,654	1,855	522,758	0.1%
2007	274,847	208,890	23,318	2,082	509,137	(2.6%)
2008	277,502	196,544	23,037	2,198	499,281	(1.9%)
2009	273,206	183,160	20,648	1,559	478,573	(4.1%)
2010	256,614	182,408	21,728	1,698	462,448	(3.4%)
2011	266,138	173,255	18,325	1,114	458,832	(0.8%)
2012	255,629	177,194	14,129	436	447,388	(2.5%)
2013	240,165	183,828	13,848	423	438,264	(2.0%)
2014	241,252	166,014	13,883	400	421,549	(3.8%)
2015	237,788	161,386	14,548	399	414,121	(1.8%)
Compound Annual Growth Rate						
2005 - 2008	(2.6%)	0.2%	(2.9%)	18.7%	(1.5%)	
2008 - 2011	(1.4%)	(4.1%)	(7.3%)	(20.3%)	(2.8%)	
2011 - 2015	(2.8%)	(1.8%)	(5.6%)	(22.6%)	(2.5%)	
2005 - 2015	(2.3%)	(1.9%)	(5.3%)	(11.2%)	(2.3%)	

Historical Aircraft Operations



SOURCE: City of Philadelphia, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Table 22: Historical Landed Weight by Airline

	FY 2011		FY 2012		FY 2013		FY 2014		FY 2015[1]	
AIRLINE [1/]	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE
American/US Airways [2/]										
American	667,283	3.0%	603,887	2.8%	586,045	2.8%	593,632	2.9%	520,570	2.5%
US Airways	13,598,963	61.9%	13,720,291	64.2%	13,654,856	66.2%	13,928,227	67.3%	13,942,683	67.1%
Subtotal American/US Airways	**14,266,246**	**65.0%**	**14,324,178**	**67.1%**	**14,240,901**	**69.0%**	**14,521,859**	**70.2%**	**14,463,253**	**69.6%**
Other Airlines										
United Parcel Service	1,446,480	6.6%	1,427,672	6.7%	1,346,690	6.5%	1,353,805	6.5%	1,403,991	6.8%
Delta Air Lines	1,315,788	6.0%	1,288,554	6.0%	1,286,003	6.2%	1,260,892	6.1%	1,269,465	6.1%
Southwest Airlines [3/]	2,666,816	12.1%	2,185,098	10.2%	1,530,036	7.4%	1,214,764	5.9%	1,116,912	5.4%
United Airlines [4/]	984,048	4.5%	939,729	4.4%	876,129	4.2%	715,166	3.5%	682,205	3.3%
FedEx	410,955	1.9%	408,627	1.9%	431,598	2.1%	473,512	2.3%	460,564	2.2%
British Airways	270,121	1.2%	277,447	1.3%	268,709	1.3%	275,550	1.3%	284,499	1.4%
Qatar Airways		0.0%		0.0%		0.0%	44,280	0.2%	183,868	0.9%
Lufthansa German Airlines	135,775	0.6%	112,152	0.5%	112,147	0.5%	137,300	0.7%	165,814	0.8%
Frontier Airlines	101,704	0.5%	98,612	0.5%	54,028	0.3%	30,430	0.1%	199,998	1.0%
JetBlue Airways					18,624	0.1%	158,398	0.8%	158,222	0.8%
Spirit Airlines		0.0%		0.0%	31,841	0.2%	132,519	0.6%	143,495	0.7%
Air Canada	96,383	0.4%	95,500	0.4%	100,914	0.5%	100,316	0.5%	100,135	0.5%
Other [5/]	265,534	1.2%	145,333	0.7%	127,006	0.6%	137,652	0.7%	104,665	0.5%
Virgin America		0.0%	55,269	0.3%	213,741	1.0%	134,812	0.7%	35,545	0.2%
Subtotal Other Airlines	**7,693,605**	**35.0%**	**7,033,993**	**32.9%**	**6,397,465**	**31.0%**	**6,169,397**	**29.8%**	**6,309,379**	**30.4%**
Total Airlines	**21,959,851**	**100.0%**	**21,358,171**	**100.0%**	**20,638,367**	**100.0%**	**20,691,256**	**100.0%**	**20,772,632**	**100.0%**

NOTES:

1/ Includes regional affiliated airlines, as applicable.

2/ American Airlines and US Airways merged on December 9, 2013, and a Single Operating Certificate was awarded April 2015.

3/ Southwest Airlines and AirTran Airways merged in 2011. Historical enplaned passengers for these airlines are combined in this table.

4/ United Airlines and Continental Airlines merged in 2010, historical enplaned passengers for these airlines are combined in this table.

5/ Includes airlines with minimal market shares or that may not operate at the Airport as of Fiscal Year 2014.

SOURCE: City of Philadelphia, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

6. American Airlines - US Airways Merger

American Airlines and US Airways closed their merger in December 2013. The Airport has been a key connecting hub and one of the primary international gateways in the combined American/US Airways route network. US Airways and its regional affiliates along with American account for approximately 77 percent of the Airport's enplaned passengers. American's business decisions regarding its route network during the merger integration period are likely to affect activity at the Airport. An examination by Ricondo & Associates of American's recent business decisions indicates the Airport will remain a critical hub in the airline's route network.

6.1 Airline Overview

The combined airline will be the largest airline in the world in terms of total passengers and aircraft operations, handling more than 195 million passengers annually and operating over 6,600 daily flights using a fleet of more than 980 mainline aircraft[24]. American's route network is centered on a system of hub and gateway airports at Charlotte, Chicago (O'Hare), Dallas/Fort Worth, Los Angeles, Miami, New York (Kennedy), Philadelphia, Phoenix, and Washington, D.C. (Reagan). Each of these hub operations consists of flights that gather and distribute traffic between various domestic and international markets. The network is supported by a fleet of aircraft that is varied in terms of size and capabilities, giving the airline flexibility to serve markets of varying sizes with appropriately sized aircraft. **Table 23** shows the rank of each hub within the combined airline's route network during CY 2014 for various measures of activity, 5.8 percent of American's total enplaned passengers were enplaned at the Airport.[25]

[24] Based on American Airlines Group, Inc. Form 10-K, annual 2014 filing.

[25] Total enplaned passengers are revenue passengers only and may differ from actual passenger totals reported at individual airports.

Table 23: CY 2014 Ranking of American Airlines and US Airways Activity at Hub Airports within the Merged Airline's Route Network

		AMERICAN AND US AIRWAYS													
					DOMESTIC			INTERNATIONAL							
AIRPORT	TOTAL AIRPORT ENPLANED PASSENGERS	TOTAL AA/US ENPLANED PASSENGERS	TOTAL AA/US HUB PASSENGER RANK	PERCENT SHARE	ENPLANED PASSENGERS	DOMESTIC PASSENGER RANK	PERCENT SHARE	ENPLANED PASSENGERS	INT'L PASSENGER RANK	PERCENT SHARE	SCHEDULED DEPARTING SEATS	SEAT RANK	SCHEDULED DEPARTURES	DEPARTURES RANK
Dallas/Ft. Worth (DFW)	30,831,115	26,279,114	1	13.3%	23,501,972	1	14.1%	2,777,142	2	18.1%	32,511,863	1	284,115	1
Charlotte (CLT)	21,942,005	20,191,929	2	10.2%	18,727,352	2	11.2%	1,464,577	4	9.5%	24,569,609	2	234,379	2
Miami (MIA)	19,133,479	13,505,391	3	6.8%	7,799,364	6	4.7%	5,706,027	1	37.1%	16,903,389	3	117,772	5
Chicago-O'Hare (ORD)	33,680,595	12,561,698	4	6.3%	11,599,932	3	6.9%	961,766	6	6.3%	15,989,083	4	172,593	3
Philadelphia	**14,866,837**	**11,487,917**	**5**	**5.8%**	**9,805,039**	**5**	**5.9%**	**1,682,878**	**3**	**11.0%**	**14,802,933**	**5**	**163,719**	**4**
Phoenix (PHX)	20,979,710	10,847,520	6	5.5%	10,148,369	4	6.1%	699,151	7	4.6%	12,954,688	6	102,405	6
Los Angeles (LAX)	34,903,109	6,707,457	7	3.4%	6,254,132	7	3.7%	453,325	8	3.0%	8,030,020	7	63,467	8
Washington-Reagan (DCA)	10,099,034	5,691,229	8	2.9%	5,625,059	8	3.4%	66,170	9	0.4%	7,580,402	8	90,926	7
New York-Kennedy (JFK)	26,260,109	3,824,893	9	1.9%	2,499,295	9	1.5%	1,325,598	5	8.6%	4,864,106	9	35,019	9
American/US Airways Network Total		197,878,753			167,152,893			15,362,930			253,106,599		2,373,326	

NOTE: Inclusive of American Airlines, US Airways, and regional airline domestic and international activity. Revenue passengers only, sorted by network total passengers.

SOURCES: U.S. Department of Transportation T100 database; Innovata, July 2015.

PREPARED BY: Ricondo & Associates, Inc., July 2015.

6.2 American Airlines' Fleet Mix

Recent and scheduled changes in American's fleet mix represent a significant improvement in seat capacity and customer service at PHL. American and its American Connection affiliates have taken steps to increase average seat capacity per departure, increase customer comfort, and improve operating efficiencies through a combination of aircraft orders, renovations, and retirements. American's larger and more efficient regional aircraft will likely lead to minimal operational growth, but will enable the airline to accommodate increases in passenger demand while retiring older, less-efficient aircraft with 50 seats or less. Aircraft with 50 seats or less are scheduled to account for approximately 31 percent of the combined airlines network-wide departures in CY 2015. This upgauging to aircraft with a first class cabin will provide more capacity per departure at the Airport; moreover, the newer, larger aircraft offer an improvement in customer service for passengers flying in and out of the Airport. These aircraft provide greater space and more amenities such as premium seating. **Table 24** shows American's published aircraft fleet at the end of 2014, the latest period for which published data is available.

In 2011, American announced orders for 260 new Airbus aircraft. The order included 130 A319ceo and A321ceo aircraft, split evenly between the two variants, the first of which began to enter the fleet in late 2013, with deliveries scheduled to be completed by 2017. The airline also ordered 130 A321neo aircraft, with deliveries scheduled to begin in 2017. Additionally, American placed an order for 200 Boeing 737-800 and Boeing 737 MAX-8 aircraft. Delivery of the 100 Boeing 737-800 aircraft began in 2013 and will continue through 2017, while the first of the 100 Boeing 737 MAX-8 aircraft are scheduled to be delivered in 2017. These new narrow body aircraft will begin to replace older McDonnell Douglas MD-80 aircraft, Boeing 737-400 aircraft, and Boeing 757-200 aircraft. American has also invested heavily in its wide body aircraft fleet; the airline continues to take delivery of Boeing 777-300ERs, with a total of 20 aircraft expected by 2016. American currently has orders for 42 Boeing 787 Dreamliner family aircraft, the first of which was delivered in January 2015. The airline also inherited an order for 22 A350-900 aircraft originally ordered by US Airways in 2007. These new aircraft will be used to both introduce new service and replace older, less efficient wide body aircraft.

6.3 The Airport's Current and Future Role in American's System

American is currently scheduled to provide nonstop service to 91 domestic and 36 international destinations from the Airport. In the transatlantic market, American serves 17 destinations. As measured by scheduled seat capacity in CY 2015, the Airport was the airline's largest gateway to Europe, the second largest gateway to Canada behind DFW and fourth largest gateway to Latin America and the Caribbean behind DFW, JFK, and MIA.

The Airport is also served by American's oneworld alliance partners, British Airways and Qatar Airways, which provide nonstop service from the Airport to oneworld hubs in London and Doha, respectively. These oneworld hubs provide additional options for travel to PHL from across the globe.

Table 24: American Airlines' Aircraft Fleet Plan as of YE 2014

AIRCRAFT TYPE	QUANTITY
Mainline	
Airbus A319	118
Airbus A320	64
Airbus A321	139
Airbus A330-200	15
Airbus A330-300	9
Boeing 737-800	246
Boeing 757	106
Boeing 767-200	6
Boeing 767-300	58
Boeing 777-200	47
Boeing 777-300	16
Embraer E190	20
McDonnell Douglas MD-80	137
Subtotal	**981**
Regional	
Bombardier CRJ-200	138
Bombardier CRJ-700	61
Bombardier CRJ-900	70
deHavilland Dash 8 (100)	27
deHavilland Dash 8 (300)	11
Embraer E170	20
Embraer E175	80
Embraer E140	34
Embraer E145	118
Subtotal	**559**
Fleet Total	**1,540**

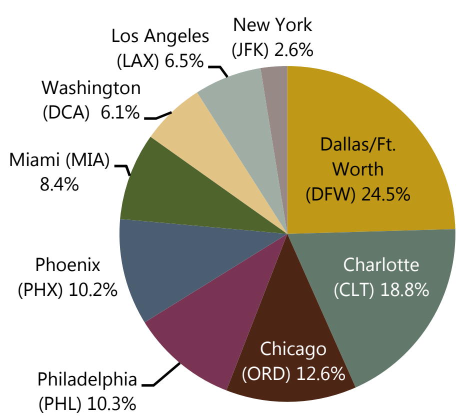
NOTE: Includes aircraft operated under contract by independent regional affiliates

SOURCE: American Airlines Group, Inc. 10K February 25, 2015
PREPARED BY: Ricondo & Associates, Inc., July 2015.

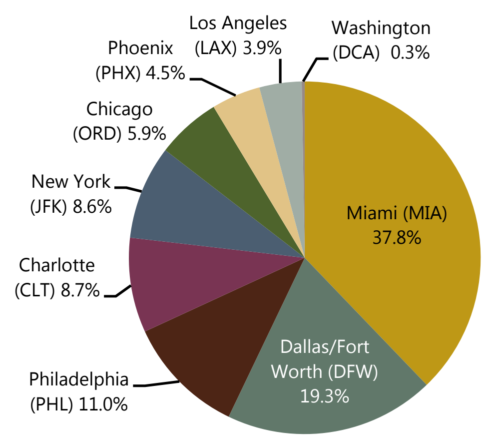
As shown in **Exhibit 3**, the Airport accounts for 10.3 percent of American's domestic scheduled departing seat capacity and 11.0 percent of the airline's international scheduled departing seat capacity among American's hub airports in CY 2015. The critical role the Airport serves in American's network is indicated by the airline's allocation of a high percentage of its network capacity to accommodate O&D and connecting passenger demand at the Airport. Overall, the Airport currently accounts for 10.4 percent of total departing seat capacity among American's hub airports.

Exhibit 3: American Airlines Scheduled Network Capacity Share in Hub Airports (CY 2015)

DOMESTIC SEAT CAPACITY SHARE



INTERNATIONAL SEAT CAPACITY SHARE

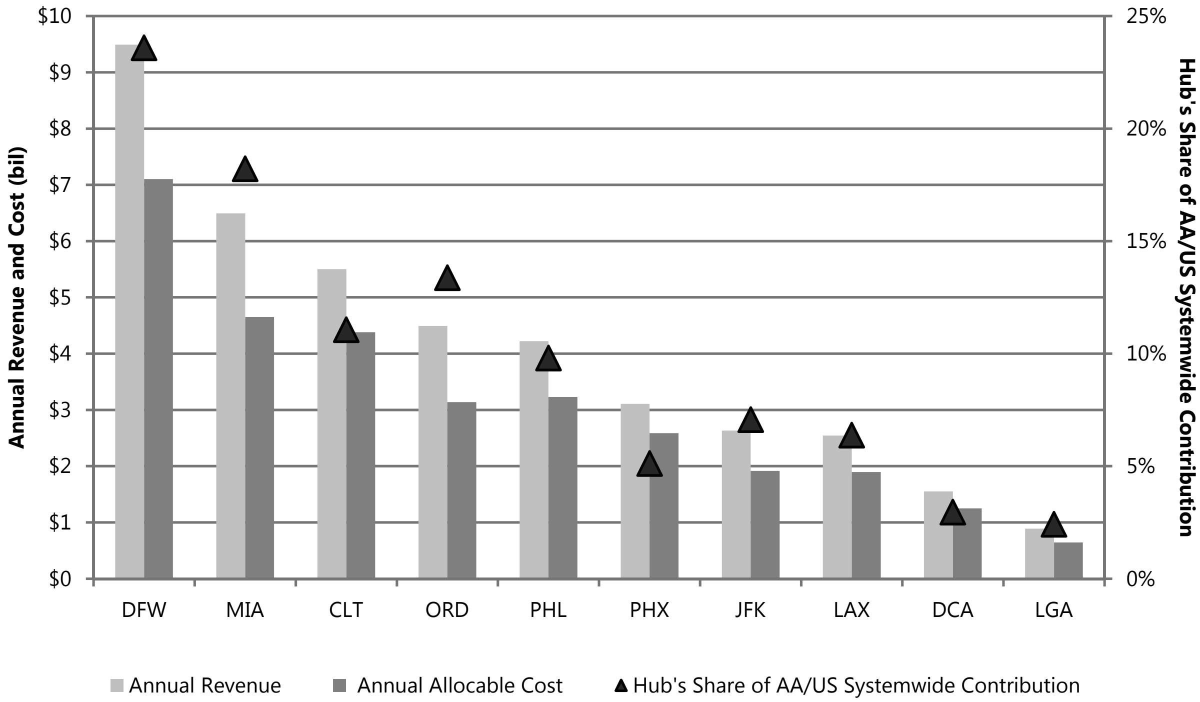


SOURCE: Innovata, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Exhibit 4 presents an estimate of the relative profitability of American's hubs as measured by system-wide contribution to profit.[26] Based on Ricondo & Associates estimates, PHL generates contribution similar to that generated by the airline's hubs at Chicago (ORD), Charlotte (CLT), and New York (when combining JFK with LGA), and in line with the Airport's share of American's hub seat capacity.

[26] Contribution to profit is defined in this analysis as total revenue less total cost identifiable and allocable to individual hubs based on several operational metrics. Certain costs, such as general and administrative costs (G&A) have been excluded from the calculation.

Exhibit 4: Estimated Relative Hub Profitability for American/US Airways



NOTE: Allocation of airline cost is approximated, and excludes cost items not readily allocable such as G&A.

SOURCES: U.S. DOT Form 41, 2013; Ricondo & Associates, Inc. (analysis), December 2014.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

The presence of a well-established and stable O&D base is a significant contributing factor to the ability of an airline to sustain a hub operation. While exceptions do exist, the ability for an airline to fill capacity with both O&D traffic and connecting traffic decreases the sensitivity to changes in one of these traffic flows, and increases the likelihood that routes will be sustainable. **Table 25** presents an estimate of airport shares of revenue generated by the airline in CY 2014. The Airport currently ranks fifth in the combined airline's network, with a 3.7 percent share of passenger revenue generation.

Table 25: Airport Passenger Revenue Generation as a Share of Network Revenue

RANK	AIRPORT	TOTAL NETWORK REVENUE CONTRIBUTION	POST-MERGER RANK
1	Dallas/Ft. Worth	6.0%	1
2	Miami	4.3%	2
3	Chicago-O'Hare	4.1%	3
4	Los Angeles	3.8%	4
5	**Philadelphia**	**3.7%**	**5**
6	Charlotte	2.6%	6
7	Phoenix	2.5%	7
8	New York-Kennedy	2.5%	8
9	Washington-Reagan	2.4%	9
10	New York-LaGuardia	2.1%	10
11	Boston	2.1%	11
12	San Francisco	1.8%	12
13	Orlando	1.6%	13
14	Las Vegas	1.4%	14
15	London-Heathrow	1.2%	15
16	Sao Paulo-Guarulhos	1.1%	16
17	San Diego	1.0%	17
18	Tampa	0.9%	18
19	Raleigh	0.9%	19
20	Atlanta	0.9%	20
21	Seattle	0.9%	21
22	Denver	0.9%	22
23	Houston-Intercontinental	0.9%	23
24	Newark	0.8%	24
25	St. Louis	0.8%	25

NOTE: Top 25 revenue markets in the combined airline's network for Calendar Year 2014.

SOURCE: U.S. Department of Transportation DB1B Survey and Form 41, July 2015; .Innovata schedule data, 2015; Ricondo & Associates, Inc. (analysis).
PREPARED BY: Ricondo & Associates, Inc., July 2015.

American Airlines, in addition to benefiting from the large O&D passenger base and geographical location of Philadelphia on the U.S. East Coast, also benefits from being the dominant airline in one of the largest air travel markets served by a single major airport. **Table 26** displays the average daily departing seats and the dominant airline at the top 25 airline hubs in the United States, sorted by the market share of the dominant airline. Among the top 10 airport airline hubs listed, the American Airlines hub at PHL ranks sixth. However, of the airports in cities with just one major commercial airport, the Airport ranks third in hub airline market share behind Charlotte (CLT) and Atlanta (ATL). While it is not expected that the American/US Airways merger will result in a significant increase in overall O&D passengers at the Airport, the airline’s role as the hub carrier in one of the United States’ largest metropolitan areas will ensure its continued ability to capture the majority of O&D traffic at the Airport.

Table 26: Top 25 Airline Hubs by Hubbing Airline Market Share

(Ranked by Hub Airline Market Share)

		HUBBING AIRLINE		
AIRPORT	AVERAGE DAILY SEATS	AIRLINE	AVERAGE DAILY SEATS	AIRPORT MARKET SHARE
Chicago-Midway	37,551	Southwest Airlines	35,046	93.3%
Charlotte	73,270	American Airlines	65,023	91.4%
Dallas/Ft. Worth	107,797	American Airlines	88,438	85.0%
Atlanta	160,424	Delta Air Lines	127,609	79.5%
Houston-Intercontinental	70,658	United Airlines	54,654	77.4%
Philadelphia	**53,018**	**American Airlines**	**37,911**	**75.2%**
Detroit	54,523	Delta Air Lines	40,923	75.1%
Minneapolis/St. Paul	57,997	Delta Air Lines	42,008	72.4%
Baltimore	40,602	Southwest Airlines	29,374	72.3%
Miami	70,068	American Airlines	46,882	69.2%
Newark	62,709	United Airlines	42,849	68.3%
Washington-Dulles	35,995	United Airlines	21,920	60.9%
Seattle	66,317	Alaska Airlines	33,641	50.7%
Phoenix	71,754	American Airlines	33,571	50.5%
Washington-Reagan	40,800	American Airlines	15,041	50.1%
San Francisco	80,439	United Airlines	34,928	43.4%
Chicago-O'Hare	122,715	United Airlines	53,260	43.4%
Denver	84,479	United Airlines	36,171	42.8%
Las Vegas	71,823	Southwest Airlines	30,479	42.4%
New York-LaGuardia	52,433	Delta Air Lines	20,798	39.7%
Orlando	61,214	Southwest Airlines	16,774	27.4%
Boston	56,353	JetBlue	14,455	25.7%
New York-Kennedy	95,561	Delta Air Lines	24,208	25.3%
Ft. Lauderdale	43,537	JetBlue	9,679	22.2%
Los Angeles	123,336	American Airlines	20,493	19.0%

NOTE: Scheduled seat capacity for Calendar Year 2015

SOURCE: Innovata, July 2015.

PREPARED BY: Ricondo & Associates, Inc., July 2015.

By virtue of the merger, American and US Airways will combine two route networks with different regional strengths. The Airport has traditionally served cities with a large US Airways market share. American Airlines will now gain access to these cities and can leverage the existing presence to direct passengers that traditionally used the Airport through other hubs such as Chicago O'Hare (ORD) or Dallas/Ft. Worth (DFW). Similarly, American will now be able to redirect passengers currently using ORD or DFW through PHL. **Table 27** presents selected markets served by both American and US Airways in CY 2013 (prior to their merger) where one carrier had a significantly larger market share prior to the merger. These represent potential markets that could benefit from access to other American or US Airways hubs. Of note are Ft. Wayne (FWA) and Grand Rapids (GRR), two markets that have traditionally been served by American. In September 2014, US Airways initiated service from the Airport to FWA and GRR, leveraging American's existing presence in the market. In addition to FWA and GRR, American also began service in 2014 to cities where US Airways has historically had a presence: Charleston, WV (CRW), Lexington (LEX), Memphis (MEM), and Watertown (ART). The carrier discontinued seasonal service to Edinburgh, Scotland (EDI).

Table 27: American and US Airways 2013 Domestic O&D Market Share in Select Markets

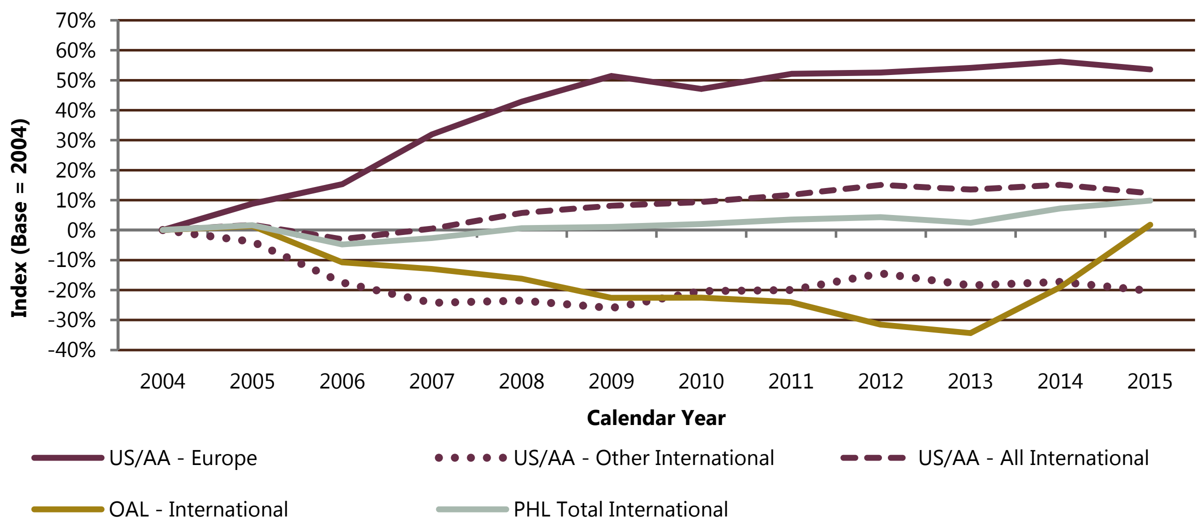
AIRPORT	AMERICAN AIRLINES	US AIRWAYS	TOTAL NETWORK
Northwest Arkansas	**41.4%**	9.3%	50.7%
Springfield, Missouri	**33.9%**	1.9%	35.7%
Charleston, West Virginia	4.8%	**30.7%**	35.6%
Syracuse	7.0%	**25.6%**	32.6%
Charleston, South Carolina	3.6%	**24.0%**	27.6%
Fort Wayne	**24.6%**	1.4%	25.9%
Cedar Rapids	**24.2%**	1.5%	25.6%
Wichita	**23.2%**	2.0%	25.2%
Peoria	**23.9%**	1.2%	25.1%
Greenville/Spartanburg	4.9%	**20.0%**	25.0%
Westchester/White Plains	6.9%	**16.0%**	22.9%
Rochester, New York	4.8%	**16.4%**	21.2%
Green Bay	**15.3%**	2.6%	17.8%
Buffalo	2.6%	**12.6%**	15.2%
Madison	**13.1%**	2.0%	15.1%
Grand Rapids	**10.7%**	1.3%	12.0%

NOTE: Sorted by total network market share

SOURCE: U.S. Department of Transportation DB1B Survey, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

As American's primary transatlantic gateway, the Airport has historically provided international service for both O&D and connecting passengers. **Exhibit 5** presents annual scheduled international departing seat capacity growth from the Airport, indexed to 2004. While overall international capacity growth at the Airport has been sluggish, American's international capacity has grown, specifically to European markets. The declines have been observed primarily for airlines using the airport as a spoke in their international route networks.

Exhibit 5: Philadelphia Scheduled International Departing Seat Growth (2004-2015)



SOURCE: Innovata, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Prior to the merger, American operated international gateways at Chicago O'Hare, Dallas/Fort Worth, Los Angeles, Miami, and New York John F. Kennedy (JFK) International Airports. Each of these airports offers unique benefits to the network of the combined airline based on an ability to accommodate local O&D traffic while also connecting passengers to international destinations. However, as the airline's merger integration evolves, it is possible that American will redistribute capacity within its route network to maximize its profitability. Geographically, John F. Kennedy International Airport is the closest competitor to the Airport and was also, pre-merger, American's largest transatlantic gateway. While New York is the nation's largest O&D market and its airports offer significant capacity throughout the world, a number of constraints affect the ability of JFK to serve as a major connecting hub in American's network:

- Airfield capacity constraints at JFK have led to scheduling limitations (in the form of slot restrictions) that limit the number of aircraft that can take off or land at any given time. As slots are limited, airlines prioritize the scheduling of flights to higher profit generating markets and are unable to serve the wide range of domestic markets necessary to facilitate connections.
- JFK is home to multiple hubbing airlines and offers point-to-point service from a wide variety of foreign flag airlines. Delta Air Lines currently operates the largest hub at the airport, serving both

domestic and international destinations, while JetBlue operates a significant hub at the airport from its own dedicated terminal.

- JFK is not the primary domestic O&D airport in New York. LaGuardia Airport remains the dominant domestic O&D airport in New York. American's ability to augment flights connecting international traffic at the JFK hub will be limited by competition from direct flights to LaGuardia flown by American and its competitors.

As American evaluates its network for overlapping capacity, areas of potential growth, and opportunities to optimize its allocation of capacity, the profiles of each hub will evolve. Based on analysis of existing domestic and international traffic flows, the Airport will remain in a strong position to continue to significantly contribute to American's overall operation.

7. Factors Affecting Aviation Demand

Qualitative factors that could influence future aviation demand at the Airport are discussed in this section.

7.1 State of the Airline Industry

In the aftermath of the terrorist attacks on September 11, 2001, the U.S. airline industry experienced a reduction in the demand for airline travel, which exacerbated problems for a U.S. airline industry already weakened by a slowing economy and rising labor and fuel costs. The result was 4 years of reported industry operating losses in 2001 through 2004, totaling more than $22 billion (excluding extraordinary charges and gains). Following these restructuring years, the airline industry gained ground through 2007, with U.S. airlines posting combined operating profits in all 3 years.[27] In 2008 and through the first half of 2009, the combination of record-high fuel prices, weakening economic conditions, and a weak dollar resulted in the worst financial environment for U.S. network and low-cost airlines since the September 11 terrorist attacks.

7.1.1 CAPACITY DISCIPLINE – A CHANGE IN THE AIRLINE BUSINESS MODEL

In 2008, many domestic airlines announced significant capacity reductions, increases in fuel surcharges, airfares and fees, and other measures to address their financial challenges. These changes dramatically improved financial conditions for the airlines. In contrast to earlier losses, North American airlines are generated net profits of approximately $15 billion in 2014, after producing $6.8 billion in profit in 2013.[28] Strict control on capacity, primarily in the domestic market, referred to as capacity discipline, is the principal driver behind the financial turnaround experienced by the airline industry.

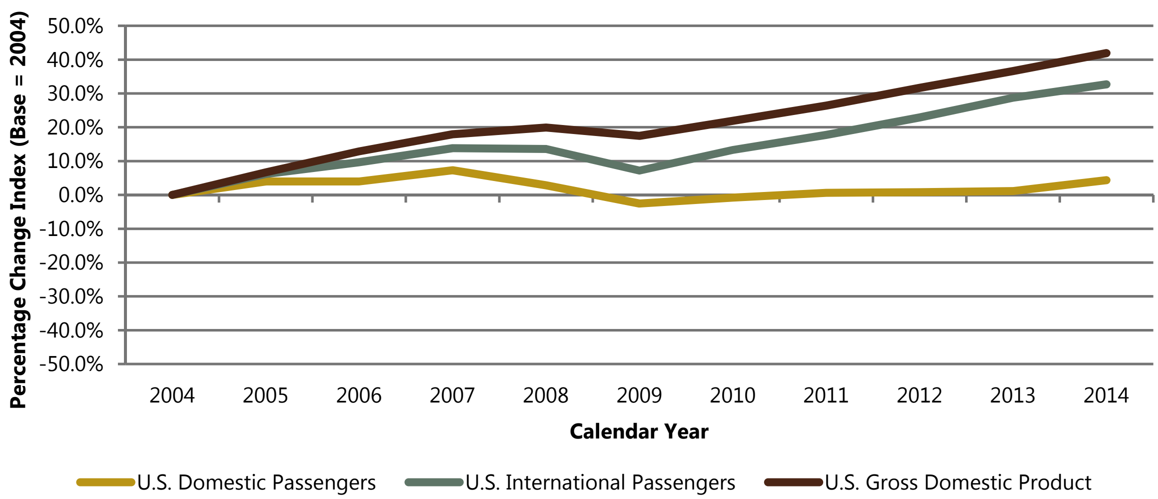
Capacity discipline reflects a shift in the airline business model, from an environment where market share targets are pursued to one where financial targets are pursued. The new business model resulted in a 10 percent decrease in U.S. domestic seat capacity between the beginning of 2008 and 2014 as airlines shed less profitable capacity and passenger volumes not contributing toward achievement of financial targets. **Exhibit 6** illustrates the change in U.S. airline industry passenger volumes since 2004 relative to the change in U.S. Gross Domestic Product, a known driver of demand for air travel. Both domestic and international passenger volumes followed GDP trends until 2009, after which domestic passenger volumes remained largely

27 Source: Airlines for America, *2009 Economic Report*.

28 Source: International Air Transport Association, *Economic Performance of the Airline Industry,* June 2015.

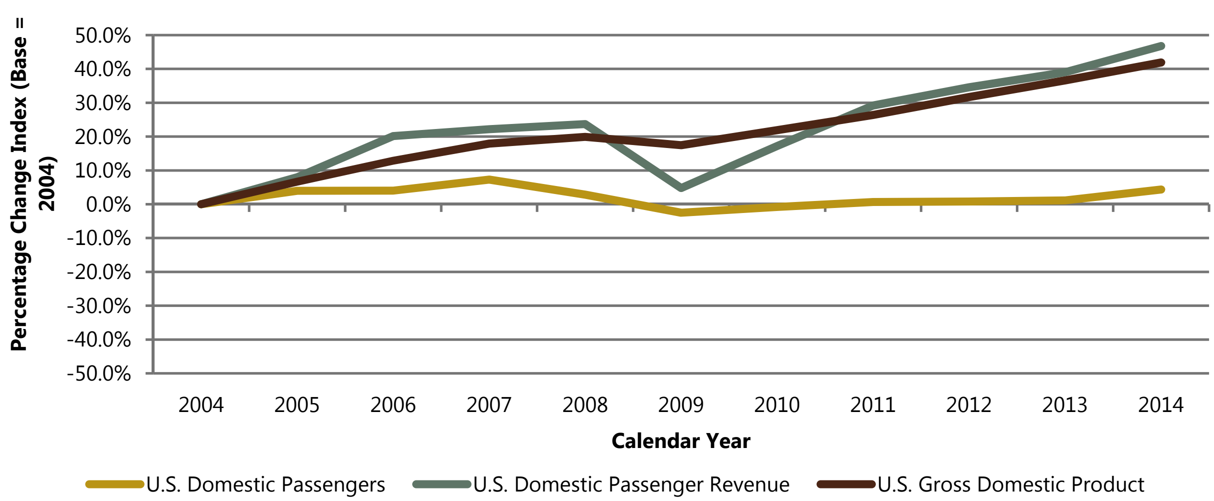
unchanged, while GDP and international passenger volume growth resumed. More profitable international passengers have continued to be accommodated by airlines. **Exhibit 7** illustrates the change in U.S. domestic passenger volume, passenger revenues, and U.S. GDP since 2004. While domestic passenger volumes have not followed GDP trends since 2009, passenger revenues have, as U.S. airlines have focused on achieving financial targets through lower domestic passenger volumes and higher passenger fares.

Exhibit 6: Growth Trends of U.S. Domestic and International Passengers and Gross Domestic Product



SOURCE: Woods & Poole Economics; U.S. Department of Transportation DB1B Survey, July 2015, FAA Aerospace Forecast, FY 2015-2035
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Exhibit 7: Growth Trends of U.S. Domestic Passengers, Passenger Revenue, and Gross Domestic Product



SOURCE: Woods & Poole Economics; U.S. Department of Transportation DB1B Survey, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

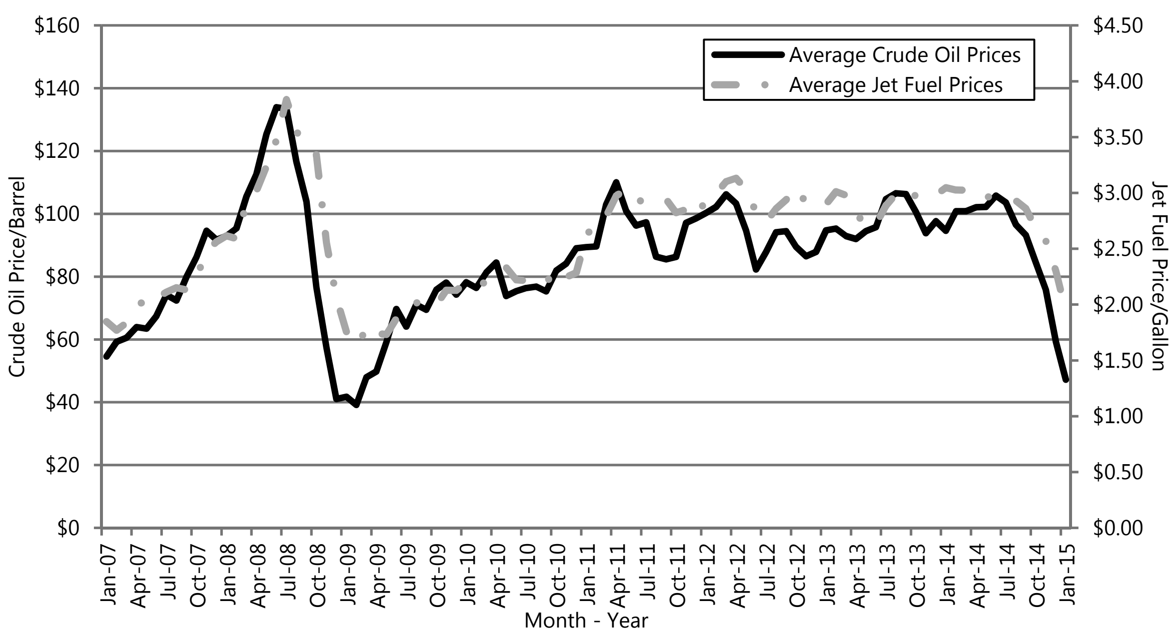
7.2 Factors Directly Affecting the Airline Industry

7.2.1 COST OF AVIATION FUEL

The price of fuel is one of the most significant and volatile expenses for airlines. **Exhibit 8** shows the monthly average cost of jet fuel and crude oil prices from January 2007 through February 2015. As shown, since 2007 the average monthly price of jet fuel fluctuated between a high of $3.84 per gallon in July 2008 to a low of $1.65 in March 2009.

Historically, fuel has been the first or second highest operating expense for the airline industry, shifting with labor as the cost of fuel fluctuated. As of the third quarter of 2014, fuel was the largest operating expense for the airline industry, representing 28.0 percent of operating expenses. Fluctuating fuel costs will continue to impact airline profitability and could lead to changes in air service as airlines restructure air service to address increases or decreases in the cost of fuel.

Exhibit 8: Historical Monthly Averages of Jet Fuel and Crude Oil Prices



SOURCES: U.S. Bureau of Transportation Statistics (Average Jet Fuel Prices), U.S. Energy Information Administration (Average Crude Oil Prices), April 2015.

PREPARED BY: Ricondo & Associates, Inc., April 2015.

7.2.2 THREAT OF TERRORISM AND GEOPOLITICAL ISSUES

Since September 11, the recurrence of terrorism incidents against either domestic or world aviation during the projection period remains a risk to achieving the activity projections contained herein. Tighter measures have restored the public's confidence in the integrity of U.S. and world aviation security systems. Any terrorist incident aimed at aviation could have an immediate and significant impact on the demand for aviation services.

Additionally, geopolitical issues may affect aviation activity during the projection period. Potential governmental or regional instability in certain countries or locations may affect access to, or demand of aviation service in these places. As an international gateway, the Airport provides service to nearly all major regions of the world. Future governmental or regional instability may have an impact on international aviation service demand at the Airport.

7.2.3 AIRLINE MERGERS AND ACQUISITIONS

In recent years, airlines have experienced increased costs and industry competition both domestically and internationally. As a result, airlines have merged and acquired competitors in an attempt to increase operational synergies and become more competitive and cost efficient. In 2009, Delta completed its merger with Northwest Airlines, initiating a wave of U.S. airline mergers and acquisitions. That same year, Republic Airways Holdings, a regional airline, acquired Frontier Airlines of Denver and Midwest Airlines of Milwaukee. In October 2010, United and Continental merged, creating the world's largest airline in terms of operating revenue and revenue passenger miles. As discussed earlier, in 2011, Southwest Airlines acquired AirTran Holdings, Inc., the former parent company of low-cost competitor AirTran. Southwest and AirTran were fully integrated by the end of 2014. As addressed in previous sections, effective December 9, 2013, American and US Airways merged, which created the largest airline in terms of operating revenue and revenue passenger miles (surpassing United). Additional consolidation in the U.S. industry could affect the amount of capacity offered to passengers and alter the competitive landscape.

8. Projections of Aviation Demand

Projections of aviation demand were developed considering historical activity, including passenger volume and revenue trends at the Airport and across the industry, historical trends and future forecasts of local and national socioeconomic factors, and anticipated trends in use of the Airport by American/US Airways and other airlines. The following section provides an overview of the methodologies used in projecting activity at the Airport, and the results of those projections through FY 2020.

8.1 Assumptions Underlying the Projections

Projections of enplaned passengers, aircraft operations, and landed weight were based on a number of underlying assumptions, including:

- The effect on Airport activity resulting from the route network integration potentially resulting from the American/US Airways merger. It is expected that the Airport will continue its role serving O&D passengers and as a major connecting hub for American. The Airport will continue to serve as a connecting hub for American's domestic route network, and will continue to be one of American's major international gateways for European, Canadian, and Caribbean traffic. The Airport will also continue to serve all major O&D markets in the U.S. The Airport's role in accommodating connecting passengers was analyzed to consider potential new passenger routings created by the merger, as well as the possibility of the airline rerouting current passenger flows across a wider base of hubs. In addition, the effect of potential aircraft redistribution among hubs was analyzed for possible effects (positive and negative) on capacity available at the Airport to accommodate O&D passengers. The net effect of the results is expected to be positive for the Airport. However, given the ongoing integration of the merged carrier, this expected positive incremental effect has not been included in the forecast of activity described below.
- For these analyses, and similar to the FAA's nationwide forecast, it was assumed that there will be no terrorist incidents during the projection period that would have significant, negative, and prolonged effects on aviation demand at the Airport or nationwide.
- Economic disturbances will occur during the projection period, causing year-to-year variations in airline traffic. However, long-term increases in nationwide and Airport traffic are projected.
- It was assumed that no major "acts of God" that may disrupt the national or global airspace system will occur during the projection period that would negatively affect aviation demand.

Many of the factors influencing aviation demand cannot be quantified, and any projection is subject to uncertainties. As a result, the projection process should not be viewed as precise. Actual airline traffic at the Airport may differ from the projections presented herein because events and circumstances do not occur as expected, and these differences may be material.

8.2 Near-Term (FY 2016) Enplaned Passengers and Operations Forecast Methodology and Results

Published airline schedules through June 2016 were analyzed, and flight segment-level estimates of performance were developed based on trends of load factors and completion rates identified through analysis of actual performance data furnished by the Airport through FY 2015, as well as through analysis of USDOT enplanement and O&D data available through December 2014. Estimates of load factor and completion rates were applied to scheduled capacity to derive enplanement and operations forecasts for FY 2016.

Table 28 presents historical and projected enplaned passengers at the Airport. The total number of enplaned passengers remained at 15.3 between FY 2014 and FY 2015. The number of domestic enplaned passengers increased 1.0 percent between FY 2014 and FY 2015. The number of international enplaned passengers decreased 0.7 percent in FY 2015. Other factors and methodologies regarding projected enplaned passengers in the longer term (FY 2017 through FY 2020) are discussed below.

Table 29 presents historical and projected aircraft operations at the Airport.[29] Total passenger airline aircraft operations are projected to increase by approximately 2.9 percent to approximately 384,793 in FY 2016, with passenger growth accommodated through use of larger aircraft – average aircraft seat capacity increasing from approximately 99 seats per departure in FY 2015 to approximately 100 seats per departure in FY 2016.

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[29] Airport management has historically displayed operations data for the following categories: Mainline/Air Carrier, Regional/Commuter, General Aviation, and Military (as the FAA displays in several of its publications). In Table 29, this activity is subcategorized. Specifically, Mainline/Air Carrier was split between passenger and all-cargo airlines, and Regional/Commuter was split between passenger aircraft with fewer than 61 seats and nonairline for-hire air taxi operations.

Table 28: Historical and Projected Domestic and International Enplaned Passengers

FISCAL YEAR	DOMESTIC ENPLANED PASSENGERS	ANNUAL GROWTH	INTERNATIONAL ENPLANED PASSENGERS	ANNUAL GROWTH	TOTAL ENPLANED PASSENGERS	ANNUAL GROWTH	INTERNATIONAL PASSENGER SHARE
Historical							
2005	13,427,191	20.4%	2,063,378	6.4%	15,490,569	18.4%	13.3%
2006	13,563,540	1.0%	2,011,457	(2.5%)	15,574,997	0.5%	12.9%
2007	13,864,721	2.2%	1,986,970	(1.2%)	15,851,691	1.8%	12.5%
2008	13,971,056	0.8%	2,081,917	4.8%	16,052,973	1.3%	13.0%
2009	13,357,446	(4.4%)	2,005,297	(3.7%)	15,362,743	(4.3%)	13.1%
2010	13,113,239	(1.8%)	2,080,502	3.8%	15,193,741	(1.1%)	13.7%
2011	13,407,158	2.2%	2,204,425	6.0%	15,611,583	2.8%	14.1%
2012	13,134,251	(2.0%)	2,209,875	0.2%	15,344,126	(1.7%)	14.4%
2013	13,021,515	(0.9%)	2,194,370	(0.7%)	15,215,885	(0.8%)	14.4%
2014	13,059,804	0.3%	2,256,249	2.8%	15,316,053	0.7%	14.7%
2015	13,072,574	0.1%	2,240,164	(0.7%)	15,312,738	(0.0%)	14.6%
Projected							
2016	13,282,929	1.6%	2,302,274	2.8%	15,585,203	1.8%	14.8%
2017	13,387,254	0.8%	2,369,040	2.9%	15,756,294	1.1%	15.0%
2018	13,486,320	0.7%	2,428,266	2.5%	15,914,585	1.0%	15.3%
2019	13,584,770	0.7%	2,484,116	2.3%	16,068,886	1.0%	15.5%
2020	13,678,031	0.7%	2,533,439	2.0%	16,211,470	0.9%	15.6%
Compound Annual Growth Rate							
2005-2015	0.3%		0.8%		(0.1%)		
2009-2015	(0.4%)		1.9%		(0.1%)		
2012-2015	(0.2%)		0.5%		(0.1%)		
2015-2020	0.9%		2.5%		1.1%		

SOURCES: City of Philadelphia, July 2014; Ricondo & Associates, Inc. (analysis), July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Table 29: Historical and Projected Aircraft Operations

	MAINLINE/AIR CARRIER			REGIONAL/COMMUTER				PASSENGER AIRCRAFT AVERAGE					
FISCAL YEAR	TOTAL	PASSENGER	ALL CARGO	TOTAL	PASSENGER	AIR TAXI	TOTAL PASSENGER AIRCRAFT	SEATS	LOAD FACTOR	GENERAL AVIATION	MILITARY	TOTAL	GROWTH
Historical													
2005	299,912	279,416	20,496	195,575	163,924	31,651	443,340	104	67.2%	25,200	1,313	522,000	13.6%
2006	272,576	252,652	19,924	223,673	197,042	26,631	449,694	98	70.5%	24,654	1,855	522,758	0.1%
2007	274,847	255,555	19,292	208,890	183,793	25,097	439,348	100	72.1%	23,318	2,082	509,137	(2.6%)
2008	277,502	258,842	18,660	196,544	173,710	22,834	432,552	99	75.0%	23,037	2,198	499,281	(1.9%)
2009	273,206	256,414	16,792	183,160	165,874	17,286	422,288	98	74.2%	20,648	1,559	478,573	(4.1%)
2010	256,614	242,404	14,210	182,408	166,920	15,488	409,324	97	76.6%	21,728	1,698	462,448	(3.4%)
2011	266,138	252,516	13,622	173,255	158,848	14,407	411,364	98	77.8%	18,325	1,114	458,832	(0.8%)
2012	255,629	242,619	13,010	177,194	162,599	14,595	405,218	96	78.7%	14,129	436	447,388	(2.5%)
2013	240,165	228,045	12,120	183,828	170,327	13,501	398,372	94	81.1%	13,848	423	438,264	(2.0%)
2014	241,252	229,208	12,044	166,014	152,558	13,456	381,766	97	82.5%	13,883	400	421,549	(3.8%)
2015	237,788	225,324	12,464	161,386	148,482	12,904	373,806	99	82.4%	14,548	399	414,121	(1.8%)
Projected													
2016	247,699	235,262	12,436	162,538	149,530	13,008	384,793	100	80.9%	14,577	402	425,216	2.7%
2017	271,157	258,547	12,611	143,625	130,366	13,259	388,913	101	80.1%	14,635	402	429,820	1.1%
2018	283,193	270,405	12,787	131,309	117,812	13,497	388,217	103	79.6%	14,694	402	429,597	(0.1%)
2019	294,766	281,800	12,966	118,875	105,146	13,729	386,946	105	79.1%	14,753	402	428,795	(0.2%)
2020	308,906	295,758	13,148	107,308	93,398	13,910	389,156	106	78.6%	14,812	402	431,427	0.6%
Compound Annual Growth Rate													
2005-2015	(2.3%)	(2.1%)	(4.9%)	(1.9%)	(1.0%)	(8.6%)	(1.7%)	(0.5%)		(5.3%)	(11.2%)	(2.3%)	
2009-2015	(2.3%)	(2.1%)	(4.8%)	(2.1%)	(1.8%)	(4.8%)	(2.0%)	0.2%		(5.7%)	(20.3%)	(2.4%)	
2012-2015	(2.4%)	(2.4%)	(1.4%)	(3.1%)	(3.0%)	(4.0%)	(2.7%)	1.1%		1.0%	(2.9%)	(2.5%)	
2015-2020	5.4%	5.6%	1.1%	(7.8%)	(8.9%)	1.5%	0.8%	1.3%		0.4%	0.1%	0.8%	

SOURCES: City of Philadelphia, July 2014; Ricondo & Associates, Inc. (analysis), July 2015.
PREPARED BY: Ricondo & Associates, Inc., January 2015.

8.3 Longer-Term (FY 2017 through FY 2020) Enplaned Passenger Forecast Methodology

To better understand the longer-term growth potential of enplaned passengers at the Airport, projections of nationwide and local economic activity were examined. It was concluded that the economic bases of the Air Trade Area and the nation are diversified, stable, and capable of generating longer-term increases in demand for air transportation at the Airport during the projection period.

Longer-term passenger demand growth rates at the Airport were derived using socioeconomic regression analysis. Socioeconomic regression analysis is used to identify causal relationships between a dependent variable (e.g., passenger volume or other metric representing passenger demand) and one or more independent variables (e.g., socioeconomic factors, such as population, employment, per capita personal income, etc.). These relationships, or regression models, can be employed to forecast future growth in aviation activity using projections of independent variables. A standard measure of how well each socioeconomic variable explains passenger demand is the regression model's coefficient of determination, or R-squared. A result of 100 percent is the maximum value possible for a coefficient of determination and represents a perfect fit between the variables analyzed. For purposes of this analysis, an R-squared value of 70 percent or better was considered adequate.

Socioeconomic regression analysis was conducted to identify causal relationships between PHL passenger demand and socioeconomic variables at the national level and for the Air Trade Area. Forecasts were developed using these regression models incorporating independent projections of the relevant socioeconomic variables. The Airport serves originating passengers who reside in or visit the Air Trade Area as well as those who connect through the Airport for business or leisure. With the Airport's diverse customer base, demand for air service is driven by factors directly related to demographic and economic characteristics of the Air Trade Area and the nation. As such, the following five socioeconomic variables were analyzed separately as independent variables in the regression analyses, both for the nation and the Air Trade Area: population, income, per capita personal income, employment, and gross regional/domestic product. Historical and projected data for these independent variables were obtained from Woods & Poole Economics, Inc.

8.3.1 PASSENGER SEGMENTATION

The relationship between socioeconomic variables and passenger activity was explored for individual passenger segments and groupings of passenger segments where necessary. For analytical purposes, passengers historically using the Airport were categorized into four segments:

- Domestic Origin and Destination (O&D) (51 percent of Airport passengers in FY 2014): Passengers using the Airport as an origin or destination point for journeys within the United States.
- International Origin and Destination (O&D) (6 percent of Airport passengers in FY 2014): Passengers using the Airport as an origin or destination point for journeys to or from points outside of the United States.

  - This category includes passengers whose ultimate destination is an international point, but who use a flight segment to or from another domestic Airport that serves as the international gateway (for example, a passenger flying from PHL to Frankfurt, Germany [FRA] via Newark Liberty Airport [EWR]). While this type of passenger is on an international itinerary, the Airport reports this type of passenger as a domestic enplanement.
- Domestic Connection (27 percent of Airport passengers in FY 2014): Passengers using the Airport as a waypoint for journeys between two other airports within the United States.
- International Connection (17 percent of Airport passengers in FY 2014): Passengers using the Airport as a waypoint for journeys between two other airports, at least one of which is an international point.
  - This category includes international to international journeys.
  - This category also includes passengers who depart from the Airport on a domestic flight after arriving at the Airport on a flight from an international origin. While this type of passenger is on an international itinerary, the Airport reports this type of passenger as domestic enplaned passengers.

Passengers were categorized as described above for analytical purposes. This categorization differs slightly from how the Airport reports passenger activity. However, passengers were re-categorized to Airport standards for presentation in Table 28.

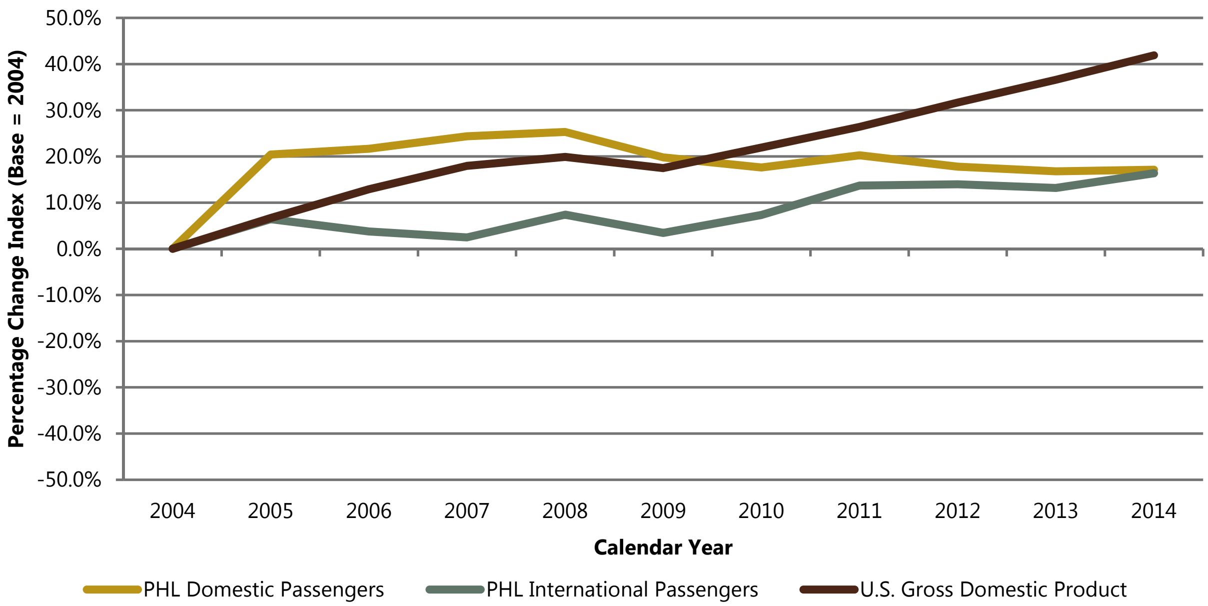
8.3.2 REGRESSION ANALYSIS SPECIFICS

Several different regression approaches were utilized to derive the ultimate forecast of enplaned passengers for the Airport. Forecasting models were explored utilizing regression analysis between:

A) <u>Socioeconomic Variables and Passenger Volumes (Single-Variable Regression):</u> Enplaned passenger forecasts commonly employ this approach, leveraging historical relationships between passenger volumes and socioeconomic variables to estimate future passenger volumes. However, as shown in Exhibit 6 the capacity discipline business model adopted by U.S. airlines across their domestic route networks has altered the historical relationship between socioeconomic elements and domestic passenger volumes nationally. This is also the case specifically for the Airport as illustrated in **Exhibit 9**. As a result, no adequate causal relationships between PHL domestic passenger volumes and socioeconomic elements were identified.

   Also as illustrated in Exhibit 6 and Exhibit 9, the historical relationship between international passenger volumes and socioeconomic factors has remained intact, as airlines have continued to accommodate more-profitable international passengers. As a result, adequate regression models were identified only when analyzing relationships between socioeconomic variables and total international enplaned passengers using the Airport (the aggregate of international O&D and international connecting passengers). These models generated a range of future compound annual growth rates for international passenger volumes between 2.0 percent and 2.9 percent for the period through FY 2020.

Exhibit 9: Growth Trends of Philadelphia Passengers and Gross Domestic Product



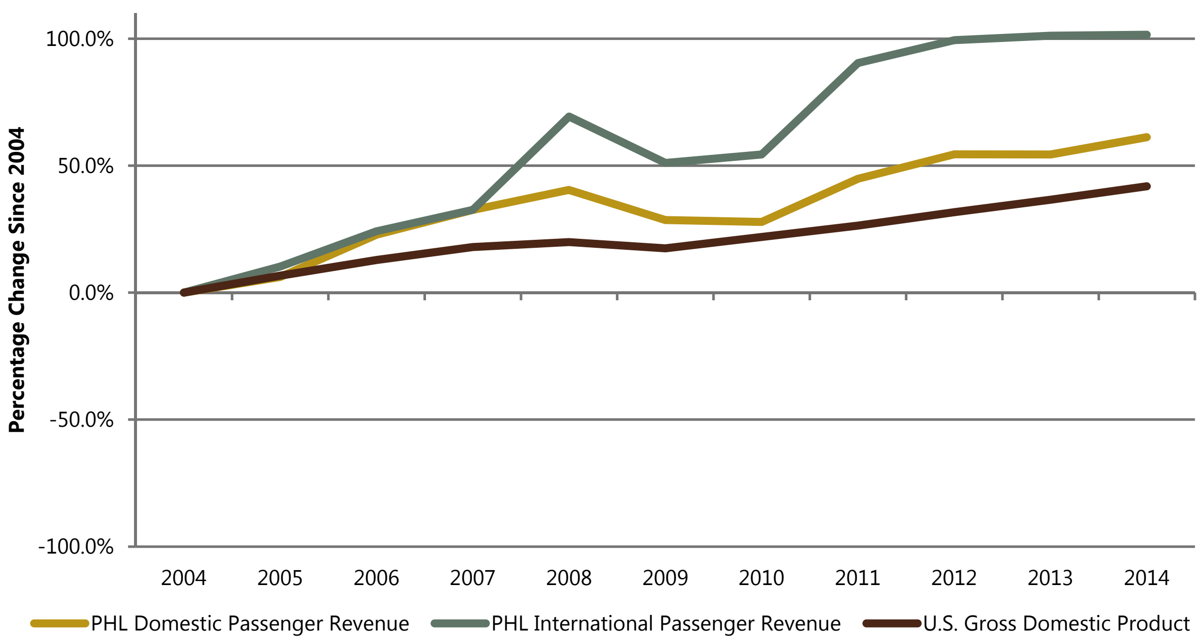
SOURCE: Woods & Poole Economics; City of Philadelphia, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

B) Socioeconomic Variables and Passenger Revenues (Single-Variable Regression): Exhibit 7 illustrates the continued positive relationship between domestic passenger revenues and socioeconomic variables (in contrast to the relationship between socioeconomic variables and domestic passenger volumes). For the Airport specifically, the same positive relationship between passenger revenues and socioeconomic variables exists for both domestic and international passenger revenues as illustrated in **Exhibit 10**. As illustrated in **Exhibit 11**, since the implementation of the capacity discipline business model by air carriers, revenue growth at PHL has come through increased average passenger fares, while passenger volumes have remained constant - unlike numerous other large airports that have seen revenue growth achieved through a combination of average fare growth and passenger volume growth. As a result, PHL has among the highest passenger yield (cents paid per passenger mile flown) of the top 30 U.S. airports as presented in **Exhibit 12**.

C) Both Socioeconomic Variables and Average Fares, and Passenger Volumes (Multi-Variable Regression): Regression analysis was performed to enable forecasting of passenger volumes given forecasts of socioeconomic variables and a range of possible average fares. Under this regression methodology, adequate relationships were identified only for the domestic O&D passenger segment. The results of this approach were compared to those generated using the approach described in approach "B", and were significantly more aggressive. As a result of the limited passenger segment applicability and more aggressive growth results, the results of this approach were dismissed.

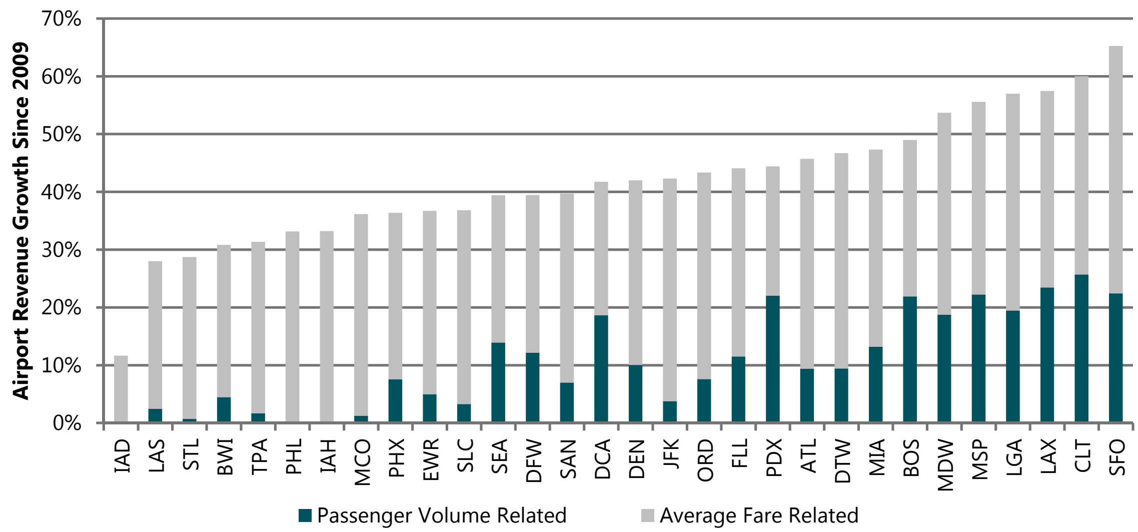
Regression analysis was conducted between socioeconomic variables and the passenger revenues generated by each passenger segment described above. For each segment, adequate regression models were identified that provided a range of future growth for passenger revenue for the period through FY 2020. In order to derive passenger volume growth associated with the forecasted passenger revenue growth, a second step was necessary to estimate how airlines might capture that revenue at PHL, through a combination of passenger volume growth and/or passenger fare growth. A range of revenue to passenger "translations" was developed for both domestic and international revenues.

Exhibit 10: Growth Trends of U.S. Philadelphia Passenger Revenue and Gross Domestic Product



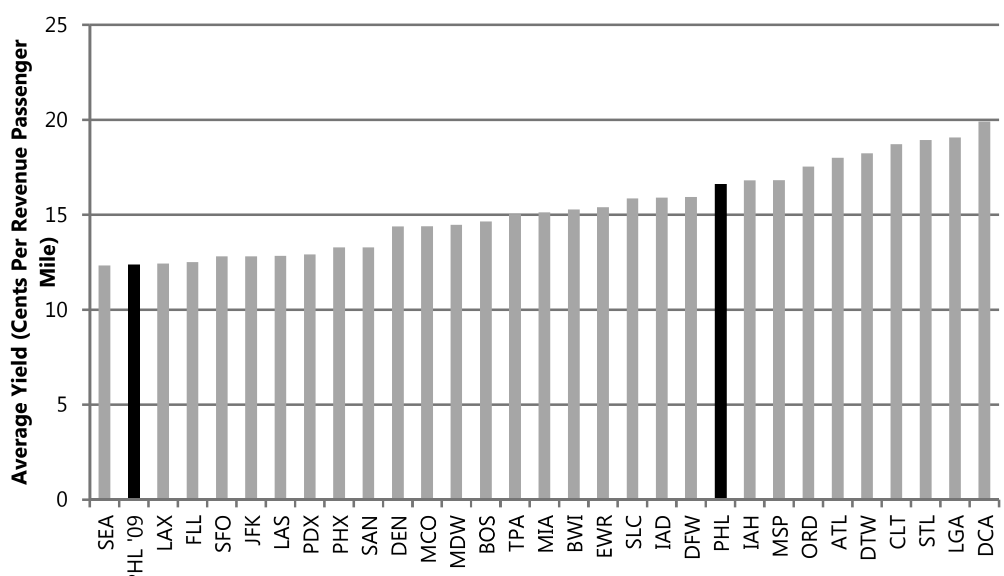
SOURCE: Woods & Poole Economics; U.S. Department of Transportation DB1B Survey, July 2015; City of Philadelphia, July 2015; Ricondo & Associates, Inc. (analysis), July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Exhibit 11: Components of Revenue Growth since CY 2009 Top 30 U.S. Airports by Departures – U.S. Carrier Data Only



SOURCE: U.S. Department of Transportation DB1B Survey, July 2015; City of Philadelphia, July 2015; Ricondo & Associates, Inc. (analysis), July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

Exhibit 12: CY 2014 Average Yield (cents/passenger mile) Top 30 U.S. Airports by Departures - U.S. Carrier Data Only



SOURCE: U.S. Department of Transportation DB1B Survey, July 2015; City of Philadelphia, July 2015; Ricondo & Associates, Inc. (analysis), July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

- Domestic Revenue to Passenger Translation:
  - Low Range: 17.9 percent of revenue growth derived through passenger volume growth, as experienced across the U.S. domestic industry over the last four years.
  - High Range: 25.0 percent of revenue growth derived through passenger volume growth, as experienced across the U.S. domestic industry over the last two years.
- International Revenue to Passenger Translation:
  - Low Range: 41.2 percent of revenue growth derived through passenger volume growth, as experienced across the U.S. international industry over the last four years and weighted for PHL-specific international destination regions.
  - High Range: 51.0 percent of revenue growth derived through passenger volume growth, as experienced across the U.S. international industry over the last two years and weighted for PHL-specific international destination regions.

This two-step approach generated a range of passenger volume compound annual growth rates for the period through FY 2020:

- Domestic Passenger Growth Range: 0.6 percent to 1.4 percent
- International Passenger Growth Range: 2.2 percent to 3.9 percent
- Total Passenger Growth Range: 1.0 percent to 2.0 percent.

Table 30 summarizes the range of results of the regression analyses to derive revenue growth rates as well as the passenger translation ranges leading to the passenger growth ranges above.

Table 30: Results of Revenue Regression Analysis and Passenger Translation

	PASSENGER SEGMENTS					
	DOMESTIC		INTERNATIONAL		TOTAL	
	LOW	HIGH	LOW	HIGH	LOW	HIGH
Revenue Growth Range Per Regression Analysis	3.2%	5.4%	5.3%	7.6%	3.7%	6.0%
Translation Range (% Revenue Growth From Passenger Growth)	17.4%	25.0%	41.2%	51.0%	25.7%	32.5%
Range of Passenger Volume Growth	0.6%	1.4%	2.2%	3.9%	1.0%	2.0%

SOURCES: Woods & Poole Economics; U.S. Department of Transportation DB1B Survey; Ricondo & Associates, Inc. (analysis), January 2015.
PREPARED BY: Ricondo & Associates, Inc., January 2015.

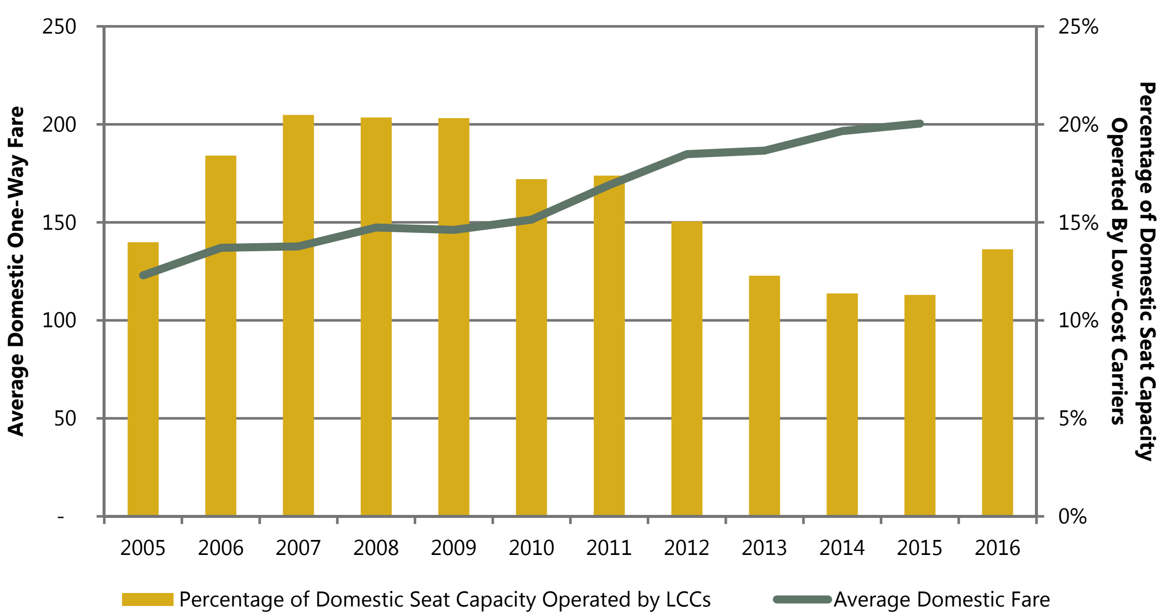
8.3.3 ENPLANED PASSENGER FORECAST RESULTS

The low-range growth results described in approach "B" above were selected for the forecast of enplaned passengers through FY 2020, both for its consistency across passenger segments, and because this approach provides a generally conservative estimate compared to other approaches or combinations of approaches described above in what remains a volatile aviation environment.

The expectations of demand growth are supported by recent capacity increases by low-cost carriers at the Airport. These carriers seek to capture a share of the increasingly lucrative passenger market that has developed since the onset of capacity discipline across the airline industry. **Exhibit 13** illustrates the recent increase in domestic capacity shares that low-cost carriers have developed in recent schedule additions.

Enplaned passenger projections are presented in Table 28, re-categorized by domestic and international as indicated in Airport reports. The number of international enplaned passengers is projected to increase from approximately 2.3 million in FY 2014 to approximately 2.5 million in FY 2020, at a compound annual growth rate of 2.0 percent for the period. The decrease of 1.6 percent in FY 2015 resulted from a strategy shift by American to better serve the European market. This shift and other recent changes will support future growth. Domestic enplaned passengers are projected to grow from 13.1 million in FY 2014 to 13.7 million in FY 2020, a compound annual growth rate of 0.8 percent. In aggregate, total Airport enplaned passengers are projected to grow from 15.3 million in FY 2014 to 16.2 million in FY 2020, at a compound annual growth rate of 1.0 percent.

Exhibit 13: Low-Cost Carrier Seat Capacity Shares Versus Average Domestic Fares at PHL



SOURCES: U.S. Department of Transportation DB1B Survey; Innovata, July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

8.4 Aircraft Operations and Landed Weight Projections

Projections of annual aircraft operations at the Airport are presented in Table 29 for FY 2015 through FY 2020. Projections of passenger airline aircraft operations are based on assumptions of load factor management by the airlines serving the Airport and analysis of future fleet plans, with particular focus on American Airlines' plans described in Section 5.2 of this report. Passenger airline aircraft operations are projected to increase at a compound annual growth rate of 0.3 percent during the projection period, with the majority of passenger growth being accommodated through use of larger-capacity aircraft. Specific information regarding projections of passenger airline aircraft operations is provided below:

- Average seat capacity for passenger airline aircraft operations at the Airport is expected to increase from 99 seats in FY 2015 to 106 seats in FY 2020. This capacity increase is driven primarily by a shift by American Airlines away from aircraft with 50 or fewer seats to both larger regional jet aircraft and narrow body mainline aircraft. Currently, 40 percent of American flights operated at the Airport are flown by aircraft with 50 or fewer seats.
- Load factors for FY 2016 are expected to decrease slightly from those in FY 2015. As, as average aircraft seat capacity increases through FY 2020, the average load factor is expected to decrease from 82.4 percent in FY 2015 to 80.6 percent in FY 2016 and to 78.6 percent in FY 2020.

All-cargo aircraft operations at the Airport are projected to increase during the projection period at a compound annual growth rate of 1.5 percent, lower than that forecast for the industry by the FAA of approximately 1.9 percent as described in the *FAA Aerospace Forecast, Fiscal Years 2014-2034*. The reduction relative to the FAA's national forecast is attributable to the potential for increased belly cargo carried by the passenger airlines as passenger aircraft size increases through FY 2020.

Air taxi, general aviation, and military aircraft operations account for a minimal share of total operations at the Airport (a combined 6.7 percent of total aircraft operations at the Airport in FY 2015). Operations were projected to increase for these segments at the average annual rates reflected in the FAA's *Terminal Area Forecast* (TAF) for the Airport after FY 2015 (1.8 percent, 0.4 percent, and 0.0 percent, respectively).

In large part as a result of the increased size of passenger aircraft expected to operate at the Airport through FY 2020, total aircraft operations at the Airport are projected to increase from 414,121 operations in FY 2015 to 431,427 operations in FY 2020, at a compound annual growth rate of 0.8 percent.

Table 31 presents historical and projected landed weight at the Airport through FY 2020. Total landed weight is projected to increase at a compound annual growth rate of 2.1 percent between FY 2015 and FY 2020, from approximately 20.8 million 1,000-pound units to 23.0 million 1,000-pound units.

Table 31: Historical and Projected Landed Weight

FISCAL YEAR	PASSENGER AIRLINES	ALL-CARGO AIRLINES	AIRPORT TOTAL
Historical			
2005	23,075,674	2,802,846	25,878,520
2006	22,085,792	2,747,022	24,832,814
2007	21,916,130	2,728,331	24,644,461
2008	21,118,414	2,705,246	23,823,660
2009	20,347,035	2,387,807	22,734,842
2010	19,595,162	2,059,609	21,654,771
2011	19,948,890	2,010,961	21,959,851
2012	19,446,594	1,911,577	21,358,171
2013	18,788,596	1,849,771	20,638,367
2014	18,792,094	1,899,162	20,691,256
2015	18,908,077	1,864,555	20,772,632
Projected			
2016	19,557,384	1,961,049	21,518,434
2017	19,964,468	1,988,504	21,952,972
2018	20,291,701	2,016,343	22,308,044
2019	20,617,949	2,044,572	22,662,521
2020	20,933,220	2,073,196	23,006,416
Compound Annual Growth Rate			
2005-2015	(2.0%)	(4.0%)	(2.2%)
2009-2015	(1.2%)	(4.0%)	(1.5%)
2012-2015	(0.9%)	(0.8%)	(0.9%)
2015-2020	2.1%	2.1%	2.1%

SOURCES: City of Philadelphia, July 2014; Ricondo & Associates, Inc. (analysis), July 2015.
PREPARED BY: Ricondo & Associates, Inc., July 2015.

9. Financial Projections

The financial projections contained in this section were calculated in accordance with the 1995 Amended and Restated General Airport Revenue Bond Ordinance, as amended and supplemented (GARBO) and the Airport-Airline Use and Lease Agreement (the Agreement), effective July 1, 2015. The projections reflect the Division of Aviation's operating plans and initiatives and the forecast of aviation demand contained in Section 8; however, there can be no assurance that such forecast results will be realized. These projections were based on the assumptions discussed below.

9.1.1 AIRLINE REVENUES

Airline revenues were calculated in accordance with the Agreement and are based on recovering the residual requirement for the Terminal Area, the Airfield Area, Other Buildings and Area, Northeast Philadelphia Airport, and the Ramp Area Cost Centers. The residual requirement for the Terminal Area and the Ramp Area are recovered through Terminal Area rentals and Ramp Area rentals, respectively. The residual requirement for the Airfield Area, Other Buildings and Areas, and Northeast Philadelphia Airport are recovered through Landing Fees.

9.1.2 NON-AIRLINE REVENUES

Non-Airline terminal concession revenues are projected to increase with passengers and price increases in food, beverage, and merchandise. Parking revenues are projected to increase with originating passengers and an increase in parking utilization during the projection period. Rental car concession fees are projected to remain at 10 percent of annual gross revenues during the projection period. In addition rental car concession fees are projected to increase with originating passengers and the implementation of an off-airport rental car concession fee of 10 percent of annual gross revenues.

Building and ground rentals and hangar and cargo rentals are projected to increase with contractual increases. Sale of utilities is projected to increase with increases in utility fees. Other landing and fuel flowage fees are projected to increase with non-airline landed weight and operations and the non-signatory landing fee rate, which is equal to 1.15 percent of the projected Signatory Landing Fee Rate. Miscellaneous revenues include interest income, law enforcement officer grants and reimbursements, canine grants, loading bridge and baggage system capital and operating expense recovery, and other miscellaneous revenues. Interest income is projected to be relatively low during the projection period based on recent and anticipated trends in the City's pooled cash interest rate.

9.1.3 OPERATING EXPENSES

Operating expenses for the Airport System include salaries and benefits, contractual services, materials and supplies, equipment, taxes, utilities, insurance and indemnities, and vehicle purchases. Operating expenses are projected to increase an average of approximately 3 percent per year during the projection period, between FY 2016 and FY 2020. Salaries and benefits for Division of Aviation and Interdepartmental personnel are projected to increase an average of 3.5 percent per year, which is consistent with recent labor and arbitration settlements for the City's major labor unions and the police and fire departments. Contractual services are projected to increase an average of 2.5 percent per year, reflecting CPI increases for contracts and some extraordinary repairs. Material and supplies and equipment are projected to increase an average of 2.0 percent per year. Taxes are projected to remain relatively flat during the projection period based on historical trends in real estate taxes paid, with an allowance for increases in assessed real estate values, and the fixed annual four-party tax settlement between the City, Delaware County, Tinicum Township, and Interboro School District. Utilities are projected to increase an average of 3.0 percent per year. Insurance and indemnities are projected to increase an average of 2.7 percent per year to reflect increases in premiums and settlement of litigation and claims. Vehicle purchases are projected to be $2.0 million annually to reflect replacement of existing vehicles and some additional vehicles.

9.1.4 BOND ISSUANCE AND DEBT SERVICE

The City established a $350 million Commercial Paper (CP) program in January 2013 to provide funding for Airport System capital project approved by the Signatory Airlines. Currently, the City has $167.5 million in outstanding CP Notes that have been used to acquire Express Park and VDT land parcels, to acquire International Plaza, and to fund portions of various ongoing capital projects. The City's intent is to continue funding approved capital projects with CP Note proceeds until it nears its $350 million capacity.

As part of the Agreement, the Airlines have agreed to fund $893.6 million of Capital Projects with CP and Airport Revenue Bonds. **Table 32** shows the current and completed Capital Projects that have received MII Approval under the Airline Agreement and the amount to be funded with Airport Revenue Bonds over the next several years based on current project cash flow estimates. During the projection period, it is assumed the City will need to issue bonds in January 2017 and July 2019, which will include CP Note takeout and some new money projects.

The proposed Series 2017 Bonds are assumed to be issued on or about January 1, 2017, in the aggregate amount of $542.3 million (yielding $429.6 million in net proceeds available to fund project costs), with a 5.0 percent interest rate, a cash-funded debt service reserve, and capitalized interest through each project element completion. The proposed Series 2019 Bonds are assumed to be issued on or about July 1, 2019, in the aggregate amount of $369,3 million (yielding $320 million in net proceeds available to fund project costs) with a 5.0 percent interest rate on the tax-exempt (Alternative Minimum Tax - AMT) portion and a 7.0 percent interest rate on taxable portions, a cash-funded debt service reserve, and capitalized interest through each project element completion. For the purpose of this projection, level annual Debt Service on bonds issued during the projection period was assumed.

Interest incurred on CP Notes for project elements completed prior to the issuance of bonds will be paid from operating revenues from the time of completion through the issuance date of the bonds.

Table 32: Bond Funding of Approved Capital Projects

Dollars in Million

				COMMERCIAL PAPER (CP) & FUTURE BONDS BY ISSUE				
CEP PROJECTS	**TOTAL PROJECT COST**	**PFC/GRANT/ CFC/EXISTING BONDS/OTHER**	**NET PROJECT COSTS TO BE FUNDED WITH CP OR BONDS**	**CP TO BE REPAID WITH REVENUES**	**PROPOSED SERIES 2017**	**PROPOSED SERIES 2019**	**PROPOSED BEYOND FY 2020**	**TOTAL CP AND BOND FUNDING**
Terminal Modernization Program (Portion)	$237.10	$37.10	$200.00	$-	$200.00	$-	$-	$200.00
Runway 9R-27L (Future Runway 9C-27C) Extension and Associated Taxiways (EE & H)	193.10	96.72	96.38	-	96.38	-	-	96.38
Off-Airport Facility Relocation (Property Acquisition Approved)	156.15	8.80	147.35	-	-	147.35	-	147.35
On-Airport Facility Relocation (Portion Approved)	19.65	-	19.65	-	15.35	4.30	-	19.65
Land Acquisition (International Plaza and VDT)	105.86	7.20	98.66	17.28	-	81.38	-	98.66
Environmental Work (Portion of Reclamation and Wetlands Mitigation)	61.95	-	61.95	-	-	-	61.95	61.95
Centralized Maintenance Facility	10.00	2.00	8.00	-	8.00	-	-	8.00
Airport People Mover (Planning and Preliminary Design)	30.00	-	30.00	-	-	30.00	-	30.00
Ground Transportation Center (Includes Consolidated Rental Car Facility)	312.09	312.09	-	-	-	-	-	-
	$1,125.90	$463.91	$661.99	$17.28	$319.73	$263.03	$61.95	$661.99
Major Projects:								
Terminal Expansion - Terminal F	$160.60	$160.60	$-	$-	$-	$-	$-	$-
Terminal Expansion - Terminals D/E (Remainder for ticketing building rennovations and check baggage inspection system)	40.00	40.00	-	-	-	-	-	-
Rehabilitation & Repair Projects:								
Terminal Infrastructure Projects (Including jet bridge replacement, air handling units, baggage handling system, misc. facility rehabilitation, etc.)	220.97	63.98	156.99	8.82	64.72	49.45	34.00	156.99
Airfield Projects (Includes taxiway replacement, emergency operations center, etc.)	61.60	4.00	57.60	1.00	30.10	7.50	19.00	57.60
	$483.17	$268.58	$214.59	$9.82	$94.82	$56.95	$53.00	$214.59
Current Capital Projects	**$1,609.07**	**$732.49**	**$876.58**	**$27.10**	**$414.55**	**$319.98**	**$114.95**	**$876.58**
Completed Capital Projects previously funded with Commercial Paper	17.00	-	17.00	2.00	15.00	-	-	17.00
	$1,626.07	$732.49	$893.58	$29.10	$429.55	$319.98	$114.95	$893.58

SOURCE: City of Philadelphia, August 2015.
PREPARED BY: AVK Consulting, Inc., August 2015.

9.1.5 FUND DEPOSIT REQUIREMENTS

GARBO and the Agreement establish various fund deposits to be made into the Operation and Maintenance (O&M) Account, the Bond Redemption and Improvement (Bond R&I) Account, and the Airport Discretionary Account annually. The annual deposit to the O&M Account is $1,000,000 per year until the balance in this account is equal to 10 percent of Operating Expenses. The deposit to the Bond R&I Account is equal to the incremental amount required to fund 25 percent of annual Debt Service net of Passenger Facility Revenues (PFC Revenues) applied against Debt Service. The annual deposit to the Discretionary Account is equal to the City's share of net revenues generated in the Outside Terminal Area Cost Center.

As part of the development of the FY 2015 Airline Rates and Charges, the City agreed to defer certain required fund deposits to the O&M Account and the Bond R&I Account and contribute various O&M Account balances to reduce the Airline Revenue requirement, in exchange for a commitment from the Signatory Airlines to repay these deferrals and contributions over the following three years. The **Table 33** below shows the deferrals and contributions and the scheduled repayment agreed upon by the City and the Signatory Airlines.

Table 33: Deferrals and Contributions

For Fiscal Year Ending June 30

	DEFERRALS AND CONTRIBUTIONS	2016	2017	2018
Deferral of FY 2014 O&M Account Deposit	$ 1,000,000	$ 333,000	$ 333,000	$ 334,000
Deferral of FY 2015 O&M Account Deposit	1,000,000	333,000	333,000	334,000
Deferral of FY 2014 O&M Account deposit	2,700,000	900,000	900,000	900,000
Deferral of FY 2014 O&M Account deposit	1,000,000	333,000	333,000	334,000
Contribution of O&M Account	10,000,000	3,334,000	3,334,000	3,332,000
Total	$15,700,000	$5,233,000	$5,233,000	$5,234,000

SOURCE: City of Philadelphia, July 2015.
PREPARED BY: AVK Consulting, Inc., July 2015.

The financial projection includes these agreed upon repayments in the calculation of Airline Revenue required, as well as, the required annual deposits to the O&M Account and Bond R&I Account.

9.1.6 PASSENGER FACILITY CHARGES (PFC)

During the projection period approximately $31.2 million of PFC Revenues will be applied to offset the annual Debt Service. During this same period, it is projected that the City will collect between $60.1 million and $62.4 million in PFC Revenue per year based on (1) the enplaned passenger projections contained in Section 8; (2) an estimated 87.6 percent qualifying passenger percentage, which is consistent with historical percentages; and (3) a $4.50 collection rate.

9.2 Calculation of Projected Airline Rates and Charges

Table 34 summarizes the calculation of projected Airline rates and charges and the Airline Revenue required for FY 2016 through FY 2020. Based on the Airline Revenue required the passenger airline cost per enplaned passenger is shown to increase from $14.74 in FY 2016 to $16.16 in FY 2020.

Table 34 (1 of 3): Pro Forma Calculation of Airline Rates And Charges

For Fiscal Year Ending June 30

		PROJECTED			
	BUDGET 2016	**2017**	**2018**	**2019**	**2020**
TERMINAL AREA RENTAL REQUIREMENT					
Net Terminal Requirement					
O&M Expenses	$141,156,000	$146,514,000	$151,044,000	$154,526,000	$158,345,000
Debt Service - Existing	63,009,000	65,249,000	64,716,000	57,340,000	57,155,000
Debt Service - Proposed	-	2,057,000	5,306,000	6,376,000	7,958,000
Fund Deposit Requirements					
O&M Account	2,614,000	2,614,000	2,615,000	569,000	566,000
Bond Redemption and Improvement Fund	882,000	2,792,000	2,439,000	680,000	4,547,000
	$207,661,000	$219,226,000	$226,120,000	$219,490,000	$228,571,000
Less:					
Non-Airline Revenues	(64,314,000)	(64,390,000)	(65,663,000)	(66,966,000)	(68,303,000)
Prior-Year Surpluses	2,202,000	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
	$145,549,000	**$149,836,000**	**$155,457,000**	**$147,524,000**	**$155,268,000**
Airline Space by category					
Type 1	40,621	40,621	40,621	40,621	40,621
Type 2	427,307	427,307	427,307	427,307	427,307
Type 3	457,328	457,328	457,328	457,328	457,328
Type 4	250,357	296,136	296,136	296,136	296,136
	1,175,613	1,221,392	1,221,392	1,221,392	1,221,392
Rental rates by category					
Type 1	$223.11	$225.72	$234.19	$222.24	$233.91
Type 2	167.34	169.29	175.64	166.68	175.43
Type 3	111.56	112.86	117.10	111.12	116.95
Type 4	55.78	56.43	58.55	55.56	58.48

Table 34 (2 of 3): Pro Forma Calculation of Airline Rates And Charges

For Fiscal Year Ending June 30

	BUDGET 2016	PROJECTED 2017	2018	2019	2020
LANDING FEE REQUIREMENT					
Net Airfield Requirement					
O&M Expenses	$49,184,000	$50,851,000	$52,166,000	$53,584,000	$55,112,000
Less: Reallocation to Ramp Area	(984,000)				
Debt Service - Existing	24,832,000	22,217,000	21,865,000	20,289,000	20,306,000
Debt Service - Proposed		2,127,000	6,887,000	13,187,000	20,985,000
Fund Deposit Requirements					
O&M Account	1,997,000	1,995,000	1,994,000	197,000	197,000
Bond Redemption and Improvement Fund	305,000	1,010,000	1,002,000	357,000	2,883,000
	$75,334,000	$78,200,000	$83,914,000	$87,614,000	$99,483,000
Less:					
Non-Airline Revenues	(6,095,000)	(5,528,000)	(5,665,000)	(5,819,000)	(5,965,000)
Prior-Year Surpluses	7,128,000	5,000,000	5,000,000	5,000,000	5,000,000
	$76,367,000	**$77,672,000**	**$83,249,000**	**$86,795,000**	**$98,518,000**
OBA Net Requirement					
O&M Expenses	$16,042,000	$16,868,000	$17,386,000	$17,803,000	$19,435,000
Debt Service - Existing	1,566,000	1,547,000	1,520,000	1,208,000	1,325,000
Debt Service - Proposed		51,000	52,000	51,000	7,692,000
Fund Deposit Requirements					
O&M Account	108,000	109,000	109,000	65,000	69,000
Bond Redemption and Improvement Fund	21,000	66,000	55,000	13,000	630,000
	$17,737,000	$18,641,000	$19,122,000	$19,140,000	$29,150,000
Less:					
Non-Airline Revenues	(7,635,000)	(7,848,000)	(8,048,000)	(8,198,000)	(15,741,000)
Prior-Year Surpluses	-	-	-	-	-
Airline Revenue Allocation	-	-	-	-	-
	$10,102,000	**$10,793,000**	**$11,074,000**	**$10,942,000**	**$13,410,000**
PNE Net Requirement					
O&M Expenses	$6,617,000	$6,842,000	$7,065,000	$7,249,000	$7,450,000
Debt Service - Existing	187,000	231,000	231,000	218,000	216,000
Debt Service - Proposed					
Fund Deposit Requirements					
O&M Account	44,000	45,000	45,000	27,000	27,000
Bond Redemption and Improvement Fund	2,000	10,000	8,000	2,000	15,000
	$6,850,000	$7,128,000	$7,349,000	$7,496,000	$7,708,000
Less:					
Non-Airline Revenues	(2,518,000)	(2,468,000)	(2,568,000)	(2,619,000)	(2,671,000)
Prior-Year Surpluses	-	-	-	-	-
	$4,332,000	$4,660,000	$4,781,000	$4,877,000	$5,037,000
	$90,801,000	**$93,125,000**	**$99,104,000**	**$102,614,000**	**$116,965,000**
Landed Weight	21,440,000	21,953,000	22,308,000	22,663,000	23,006,000
Landing Fee Rate	$4.24	$4.24	$4.44	$4.32	$5.08

Table 34 (3 of 3): Pro Forma Calculation of Airline Rates And Charges

For Fiscal Year Ending June 30

		PROJECTED			
	BUDGET 2016	2017	2018	2019	2020
RAMP AREA REQUIREMENT					
Net Ramp Requirement					
O&M Expenses	$984,000	$ --	$ --	$ --	$ --
Debt Service - Existing	487,000	479,000	479,000	301,000	300,000
Debt Service - Proposed					
Fund Deposit Requirements					
O&M Account	-	-	-	-	-
Bond Redemption and Improvement Fund	7,000	20,000	17,000	3,000	21,000
	$1,478,000	$499,000	$496,000	$304,000	$321,000
Less:					
Non-Airline Revenues	-	-	-	-	-
Prior-Year Surpluses	153,000	-	-	-	-
	$1,631,000	**$499,000**	**$496,000**	**$304,000**	**$321,000**
Linear footage of Ramp Area Premises	18,572	18,572	18,572	18,572	18,572
Ramp Area Premises Rate	$87.82	$26.87	$26.71	$16.37	$17.28
TOTAL AIRLINE REVENUE REQUIRED	$237,981,000	$243,460,000	$255,057,000	$250,442,000	$272,554,000
Less: Cargo Landing Fees	(8,275,000)	(8,437,000)	(8,956,000)	(9,259,000)	(10,539,000)
	$229,706,000	**$235,023,000**	**$246,101,000**	**$241,183,000**	**$262,015,000**
Enplaned Passengers	15,585,000	15,756,000	15,915,000	16,069,000	16,211,000
Cost per Enplaned Passenger	***$14.74***	***$14.92***	***$15.46***	***$15.01***	***$16.16***

SOURCE: City of Philadelphia, AVK Consulting, Inc. (projections), August 2015.
PREPARED BY: AVK Consulting, Inc., August 2015.

9.3 Projected Net Revenues

Table 35 summarizes the projected Net Revenues for FY 2016 through FY 2020. Net Revenues generated annually range from $8.2 million in FY 2016 to $10.2 million in FY 2020. Table 35 also summarizes distribution of Net Revenues to the O&M Account, the Bond R&I Account, and the Discretionary Account.

9.4 Projected Fund Deposits and Fund Balances

Table 36 shows the projected fund balances in the O&M Account, the Bond R&I Account, and the Discretionary Account based on the fund deposits projected in Table 35. The O&M Account balance is projected to increase from $4.3 million beginning in FY 2016 to $20.7 million beginning in FY 2020. The Bond R&I Account is projected to increase from $19.0 million beginning in FY 2016 to $29.6 million beginning in FY 2020. The Discretionary Account is projected to increase from $42.3 million beginning in FY 2016 to $47.0 million beginning in FY 2020. Per GARBO, balances in each of these three accounts at the beginning of each fiscal year are considered Amounts Available for Debt Service (AADS).

9.5 Projected Debt Service Coverage

Table 37 presents the projected Debt Service coverage calculations pursuant to Sections 5.01(a)(1) and 5.01(a)(2) of GARBO. Debt Service coverage for Test 1 under GARBO is projected to range from 2.59 in FY 2016 to 2.74 in FY 2019. Debt Service coverage for Test 2 under GARBO is projected to range from 1.60 in FY 2016 to 1.73 in FY 2019.

Table 35: Summary of Projected Net Revenues

For Fiscal Years Ending June 30

	BUDGET 2016	PROJECTED 2017	2018	2019	2020
Airport Revenues					
Airline revenues					
Terminal Area rentals	$145,549,000	$149,836,000	$155,457,000	$147,524,000	$155,268,000
Ramp Area rentals	1,631,000	499,000	496,000	304,000	321,000
Landing fee revenues	90,801,000	93,125,000	99,104,000	102,614,000	116,965,000
	$237,981,000	$243,460,000	$255,057,000	$250,442,000	$272,554,000
Non-airline operating revenues					
Concession & Parking Revenues					
Terminal Concessions	$28,342,000	$29,051,000	$29,777,000	$30,521,000	$31,284,000
Automobile Parking	26,200,000	26,855,000	27,526,000	28,215,000	28,920,000
Rental Car	18,600,000	19,065,000	19,541,000	20,030,000	20,531,000
Ground Transportation	3,177,000	3,277,000	3,380,000	3,488,000	3,599,000
Other Concessions	10,314,000	9,393,000	9,551,000	9,722,000	9,899,000
	$86,633,000	$87,641,000	$89,775,000	$91,976,000	$94,233,000
Other Revenues					
Building and Ground Rentals	$16,180,000	$15,941,000	$16,133,000	$16,228,000	$23,716,000
Hangar and Cargo Rentals	2,507,000	2,563,000	2,599,000	2,613,000	2,629,000
Sales of Utilities	4,412,000	4,522,000	4,636,000	4,752,000	4,870,000
Other Landing and Fuel Flowage Fees	2,248,000	2,281,000	2,338,000	2,410,000	2,471,000
Miscellaneous	6,571,000	6,692,000	6,820,000	6,951,000	7,083,000
	$31,918,000	$31,999,000	$32,526,000	$32,954,000	$40,769,000
	$118,551,000	$119,640,000	$122,301,000	$124,930,000	$135,002,000
Prior years' credit (deficit)	(9,483,000)	-	-	-	-
Contribution for carrier incentive program	680,000	-	-	-	-
	$347,729,000	$363,100,000	$377,358,000	$375,372,000	$407,556,000
Less:					
Operating Expenses	248,348,000	257,731,000	265,475,000	271,998,000	279,893,000
Net operating revenues	$99,381,000	$105,369,000	$111,883,000	$103,374,000	$127,663,000
Debt Service					
Existing	$91,197,000	$90,828,000	$89,912,000	$80,459,000	$80,402,000
Proposed	-	4,715,000	12,732,000	20,093,000	37,103,000
	$91,197,000	$95,543,000	$102,644,000	$100,552,000	$117,505,000
Airport System Net Revenue	**$8,184,000**	**$9,826,000**	**$9,239,000**	**$2,822,000**	**$10,158,000**
Distribution of Airport System Net Revenue					
Deposit to O&M Account	$5,000,000	$5,000,000	$5,000,000	$1,000,000	$1,000,000
Deposit to Bond R&I Account	1,233,000	3,964,000	3,576,000	1,072,000	8,205,000
Deposit to Airport Discretionary Account	1,951,000	862,000	663,000	750,000	953,000
	$8,184,000	**$9,826,000**	**$9,239,000**	**$2,822,000**	**$10,158,000**

SOURCE: City of Philadelphia, AVK Consulting, Inc. (projections), August 2015.
PREPARED BY: AVK Consulting, Inc., August 2015.

Table 36: Summary of Projected Fund Deposits and Fund Balances Available for Debt Service

For Fiscal Years Ending June 30

		PROJECTED			
	BUDGET 2016	2017	2018	2019	2020
Deposit to O&M Account	$5,000,000	$5,000,000	$5,000,000	$1,000,000	$1,000,000
Fund balance at the beginning of the fiscal year	4,321,000	9,393,000	14,436,000	19,530,000	20,674,000
Deposit to Bond R&I Account	$1,233,000	$3,964,000	$3,576,000	$1,072,000	$8,205,000
Fund balance at the beginning of the fiscal year	18,987,000	20,316,000	24,470,000	28,249,000	29,566,000
Deposit to Airport Discretionary Account	$1,951,000	$862,000	$663,000	$750,000	$953,000
Fund balance at the beginning of the fiscal year	42,282,000	44,339,000	45,312,000	46,088,000	46,953,000
Operating Fund Balance attributable to AADS	$65,590,000	$74,048,000	$84,218,000	$93,867,000	$97,193,000

SOURCE: City of Philadelphia, AVK Consulting, Inc. (projections), August 2015.
PREPARED BY: AVK Consulting, Inc., August 2015.

Table 37: Projected Debt Service Coverage

For Fiscal Years Ending June 30

	BUDGET 2016	PROJECTED 2017	2018	2019	2020
TEST 1 (A)					
Amounts Available for Debt Service (AADS)					
Project Revenues					
Airline Revenues	$228,498,000	$243,460,000	$255,057,000	$250,442,000	$272,554,000
Non-Airline Revenues	118,551,000	119,640,000	122,301,000	124,930,000	135,002,000
	$347,049,000	$363,100,000	$377,358,000	$375,372,000	$407,556,000
Other amounts available for Debt Service					
PFC revenues available for debt service	31,176,000	31,193,000	31,198,000	31,189,000	31,200,000
Contribution for carrier incentive program	680,000	-	-	-	-
Operating Fund Balance attributable to AADS	65,590,000	74,048,000	84,218,000	93,867,000	97,193,000
	$444,495,000	$468,341,000	$492,774,000	$500,428,000	$535,949,000
Less:					
Net Operating Expenses	$127,535,000	$131,475,000	$135,348,000	$138,947,000	$142,445,000
Required Sinking Fund Reserve deposit					
Required Renewal Fund deposit	500,000	250,000	-	-	-
	$128,035,000	$131,725,000	$135,348,000	$138,947,000	$142,445,000
Funds available for Revenue Bond debt service coverage	**$316,460,000**	**$336,616,000**	**$357,426,000**	**$361,481,000**	**$393,504,000**
Total debt service	$123,373,000	$126,736,000	$133,842,000	$131,741,000	$148,705,000
Less: Interest income offset	(1,000,000)	-	-	-	-
Net Revenue bond debt service	**$122,373,000**	**$126,736,000**	**$133,842,000**	**$131,741,000**	**$148,705,000**
Revenue Bond debt service coverage	**2.59**	**2.66**	**2.67**	**2.74**	**2.65**
Coverage requirement	1.50	1.50	1.50	1.50	1.50
TEST 2 (B)					
Amounts Available for Debt Service (AADS)					
Project Revenues					
Airline Revenues	$228,498,000	$243,460,000	$255,057,000	$250,442,000	$272,554,000
Non-Airline Revenues	118,551,000	119,640,000	122,301,000	124,930,000	135,002,000
	$347,049,000	$363,100,000	$377,358,000	$375,372,000	$407,556,000
Other amounts available for Debt Service					
PFC revenues available for debt service	31,176,000	31,193,000	31,198,000	31,189,000	31,200,000
Contribution for carrier incentive program	680,000	-	-	-	-
Operating Fund Balance attributable to AADS	65,590,000	74,048,000	84,218,000	93,867,000	97,193,000
	$444,495,000	$468,341,000	$492,774,000	$500,428,000	$535,949,000
Less:					
Operating Expenses	$247,848,000	$257,481,000	$265,475,000	$271,998,000	$ 279,893,000
Required Sinking Fund Reserve deposit	-	-	-	-	-
Required Renewal Fund deposit	500,000	250,000	-	-	-
	$248,348,000	$257,731,000	$265,475,000	$271,998,000	$ 279,893,000
Funds available for Revenue Bond debt service coverage	**$196,147,000**	**$210,610,000**	**$227,299,000**	**$228,430,000**	**$256,056,000**
Total debt service	$123,373,000	$126,736,000	$133,842,000	$131,741,000	$148,705,000
Less: Interest income offset	(1,000,000)	-	-	-	-
Net Revenue bond debt service	**$122,373,000**	**$126,736,000**	**$133,842,000**	**$131,741,000**	**$148,705,000**
Revenue Bond debt service coverage	**1.60**	**1.66**	**1.70**	**1.73**	**1.72**
Coverage requirement	1.00	1.00	1.00	1.00	1.00

NOTES:

1/ Pursuant to Section 5.01(a)(1) of the Amended and Restated General Airport Revenue Bond Ordinance.

2/ Pursuant to Section 5.01(a)(2) of the Amended and Restated General Airport Revenue Bond Ordinance.

SOURCE: City of Philadelphia, AVK Consulting, Inc. (projections), August 2015.
PREPARED BY: AVK Consulting, Inc., August 2015.

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APPENDIX II

FINANCIAL STATEMENTS OF THE DIVISION OF AVIATION

FISCAL YEAR ENDED JUNE 30, 2014

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PHL PHILADELPHIA INTERNATIONAL AIRPORT

CITY OF PHILADELPHIA
Philadelphia Airport System

Municipal Securities Disclosure
Annual Financial Information
Fiscal Year Ended June 30, 2014

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PHL PHILADELPHIA INTERNATIONAL AIRPORT

Municipal Securities Disclosure Report
Annual Financial Report
For the Fiscal Year Ended June 30, 2014

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PHL PHILADELPHIA INTERNATIONAL AIRPORT

Disclosure Requirements
Fiscal Year Ended June 30, 2014

This report has been prepared pursuant to certain provisions of the following Continuing Disclosure Agreements, collectively referred to as the "Disclosure Agreements":

- Continuing Disclosure Agreements dated July 23, 1998 between the Philadelphia Authority for Industrial Development and the City of Philadelphia, Pennsylvania

- Continuing Disclosure Agreements dated June 1, 2005, August 4, 2005, August 1, 2007, April 14, 2009, November 15, 2010, and December 1, 2011 between the City of Philadelphia, Pennsylvania and Digital Assurance Certification, L.L.C.

This report contains financial information and operating data which, together with the City of Philadelphia's Comprehensive Annual Financial Report ("CAFR"), constitute the "Annual Financial Information" as defined in the Disclosure Agreements.

In accordance with Section 3 of the Disclosure Agreements, the enclosed tables and financial information are substantially similar to the type set forth in the Official Statements for the Philadelphia Authority for Industrial Development Airport Revenue Bonds, Series 1998A and the City of Philadelphia, Pennsylvania Airport Revenue Bonds, Series 2005A, 2005C, 2007A/B, 2009A, 2010A/B/C/D and 2011A/B.

TABLE 1

Philadelphia International Airport
Recent Trends in Enplaned Passengers
Fiscal Years 2012 - 2014

Airlines	Fiscal 2012	Fiscal 2013	Percentage Increase (Decrease)	Fiscal 2014	Percentage Increase (Decrease)
Domestic					
Scheduled Major / National					
US Airways	5,158,598	5,257,796	1.9%	5,426,768	3.2%
Other	3,739,053	3,408,521	-8.8%	3,357,499	-1.5%
	8,897,651	8,666,317	-2.6%	8,784,267	1.4%
Scheduled Regional / Commuter	4,235,670	4,354,853	2.8%	4,274,934	-1.8%
Charter	930	345	-62.9%	603	74.8%
Subtotal - Domestic	**13,134,251**	**13,021,515**	**-0.9%**	**13,059,804**	**0.3%**
International					
Scheduled	2,209,205	2,194,201	-0.7%	2,252,345	2.6%
Charter	670	169	-74.8%	3,904	*
Subtotal - International	**2,209,875**	**2,194,370**	**-0.7%**	**2,256,249**	**2.8%**
Total Enplaned Passengers	**15,344,126**	**15,215,885**	**-0.8%**	**15,316,053**	**0.7%**

Note: The City's Fiscal Year Ends June 30.

* Percentage comparisons in excess of 500% are omitted.

TABLE 2

Philadelphia International Airport
Airline Market Shares of Enplaned Passengers
Fiscal Year 2014

Airlines	Enplaned Passengers	Percent of Total
Domestic		
Scheduled Major / National		
US Airways	5,426,768	35.4%
Southwest Airlines	927,172	6.1%
Delta Air Lines	908,882	5.9%
United Airlines	492,899	3.2%
American Airlines	439,153	2.9%
AirTran Airways	189,037	1.2%
Spirit Airlines	129,417	0.8%
JetBlue Airways	116,655	0.8%
Virgin America	97,932	0.6%
Alaska Airlines	54,569	0.4%
Frontier Airlines	1,783	0.0%
	8,784,267	57.4%
Scheduled Regional / Commuter		
US Airways Express		
Republic Airlines	1,462,890	9.6%
Air Wisconsin Airlines	1,302,475	8.5%
Piedmont Airlines	792,688	5.2%
PSA Airlines	231,547	1.5%
Mesa Airlines	50,508	0.3%
	3,840,108	25.1%
Other	434,826	2.8%
	4,274,934	27.9%
Charter	603	0.0%
Subtotal - Domestic	**13,059,804**	**85.3%**
International		
Scheduled Major / National		
US Airways	1,697,885	11.1%
British Airways	112,422	0.7%
Lufthansa German Airlines	63,334	0.4%
Frontier Airlines	23,108	0.2%
Qatar Airways	18,299	0.1%
Delta Air Lines	15,473	0.1%
Air Canada	424	0.0%
	1,930,945	12.6%
Scheduled Regional / Commuter		
US Airways Express		
Air Wisconsin Airlines	219,574	1.4%
Republic Airlines	45,726	0.3%
	265,300	1.7%
Other	56,100	0.4%
	321,400	2.1%
Charter	3,904	0.0%
Subtotal - International	**2,256,249**	**14.7%**
Total Enplaned Passengers	**15,316,053**	**100.0%**

Note: The City's Fiscal Year Ends June 30.

TABLE 3

Philadelphia International Airport
Airline Market Shares of Landed Weight (in 1,000 lb. Units)
Fiscal Year 2014

Airlines	Landed Weight	Percent of Total
Domestic		
Scheduled Major / National		
US Airways	6,264,113	30.3%
Delta Air Lines	1,024,831	5.0%
Southwest Airlines	1,010,276	4.9%
United Airlines	555,244	2.7%
American Airlines	465,219	2.2%
AirTran Airways	204,488	1.0%
JetBlue Airways	158,398	0.8%
Virgin America	134,812	0.7%
Spirit Airlines	132,519	0.6%
Alaska Airlines	55,410	0.3%
Frontier Airlines	4,693	0.0%
Air Canada	660	0.0%
	10,010,661	48.4%
Scheduled Regional / Commuter		
US Airways Express		
Republic Airlines	1,729,624	8.4%
Air Wisconsin Airlines	1,486,845	7.2%
Piedmont Airlines	984,862	4.8%
PSA Airlines	274,903	1.3%
Mesa Airlines	64,607	0.3%
	4,540,841	21.9%
Other	501,896	2.4%
	5,042,736	24.4%
Charter	4,257	0.0%
Subtotal - Domestic	**15,057,655**	**72.8%**
International		
Scheduled Major / National		
US Airways	2,809,292	13.6%
British Airways	275,550	1.3%
Lufthansa German Airlines	137,300	0.7%
Qatar Airways	44,280	0.2%
Frontier Airlines	25,738	0.1%
Delta Air Lines	22,694	0.1%
Air Canada	939	0.0%
	3,315,793	16.0%
Scheduled Regional / Commuter		
US Airways Express		
Air Wisconsin Airlines	255,351	1.2%
Republic Airlines	58,631	0.3%
	313,982	1.5%
Other	98,717	0.5%
	412,699	2.0%
Charter	6,377	0.0%
Subtotal - International	**3,734,869**	**18.1%**
All-Cargo Airlines	**1,899,162**	**9.2%**
Total Landed Weight	**20,691,685**	**100.0%**

Note: The City's Fiscal Year Ends June 30.

TABLE 4

Summary of Historical Project Revenues and Expenses of the Airport System
City of Philadelphia
(Fiscal Years Ending June 30)
(Dollar Amounts are listed in thousands)

Line		Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014
	Amounts Available for Debt Service					
1.	Revenue deferred from prior year	$ 7,203	$ 19,983	$ 32,069	28,573	8,210
1a.	Deferred revenue adjustment	0	1,981	1,668	0	0
2.	Space rentals	86,821	85,812	79,287	85,714	92,397
3.	Landing fees	49,144	60,152	56,829	59,192	67,392
4.	Ramp Area rentals	1,359	1,232	707	1,053	1,138
5.	Terminal Payments-in-Aid	0	0	0	0	0
6.	Outside Terminal Area Payments-in-Aid	0	0	0	0	0
7.	International Terminal revenues	19,497	17,566	16,202	20,042	24,874
8.	Revenue (deferred to subsequent year) / accrued for current year	(19,983)	(33,737)	(28,573)	(8,210)	10,100
9.	Subtotal, Airline Rentals, Fees and Charges	144,041	152,989	158,190	186,363	204,111
10.	Nonairline Revenues	102,258	107,645	111,196	103,519	112,759
11.	Interest income and Contribution for carrier incentive program	608	152	199	1,899	24
12.	Total Project Revenues	246,907	260,785	269,584	291,781	316,893
13.	Passenger Facility Charges (PFCs) Available for Debt Service	33,133	32,353	31,573	31,160	31,168
14.	Portion of Fund Balance Attributable to Amounts Available for Debt Service	55,128	77,635	65,939	69,272	66,542
15.	Total Amounts Available for Debt Service	335,167	370,773	367,096	392,213	414,604
	Expenses					
16.	Net Operating Expenses	102,860	98,134	99,014	110,210	117,282
17.	Required Renewal Fund Deposit	0	250	500	500	500
18.	Revenue Bond Debt Service	94,307	102,448	103,042	109,836	125,397
19.	General Obligation Bond Debt Service	0	0	0	0	0
20.	Interdepartmental Charges	80,755	88,639	92,666	101,858	103,902
21.	Total Expenses	277,921	289,470	295,222	322,404	347,082
22.	**Net Revenue**	$ 57,246	$ 81,303	$ 71,874	$ 69,808	$ 67,522
	Rate Covenant Tests of the Original General Ordinance					
23.	Test A (Line 15- Line 16- Line 17) / (Line 18)	2.46	2.66	2.60	2.56	2.37
24.	Test B (Line 15- Line 16- Line 17- Line 20) / (Line 18 + Line 19)	1.61	1.79	1.70	1.64	1.54

Note: The information presented above reconciles to the Basic Financial Statements contained in the City's Comprehensive Annual Financial Reports, which are audited by the Office of the City Controller

TABLE 5

Philadelpha International Airport

History of Applications to Use PFC Revenues

PFC Application No.	Approval Date	Initial Approved Amount	Amended Approved Amount
93-02-U-00-PHL	05/15/1993	$ 14,250,000	$ 12,805,493
95-03-C-00-PHL	02/27/1995	101,500,000	94,683,960
95-04-U-00-PHL	10/13/1995	950,000	1,270,605
95-05-C-00-PHL	11/21/1995	14,000,000	14,000,000
98-06-C-00-PHL	02/11/1998	26,150,000	19,534,950
99-08-U-00-PHL	10/12/1999	672,000,000	999,267,790
01-09-C-00-PHL	02/22/2000	22,250,000	24,400,000
06-10-C-00-PHL	02/16/2006	83,250,000	249,450,000
Totals		$ 934,350,000	$ 1,415,412,798

TABLE 6

Philadelphia International Airport

Historical PFC Revenues

Fiscal Year	Collections	Interest	Total Revenues
1993	$ 14,484,101	$ 142,790	$ 14,626,891
1994	22,605,318	1,111,511	23,716,829
1995	21,828,173	2,285,485	24,113,658
1996	22,817,704	2,277,935	25,095,639
1997	27,229,901	1,837,334	29,067,235
1998	30,931,674	1,654,752	32,586,426
1999	29,408,652	2,018,264	31,426,916
2000	32,278,858	2,828,083	35,106,941
2001	31,880,729	3,362,695	35,243,424
2002	53,688,877	2,112,347	55,801,223
2003	43,961,971	1,537,729	45,499,700
2004	51,766,443	808,417	52,574,859
2005	61,378,549	1,284,025	62,662,574
2006	62,165,176	3,252,682	65,417,858
2007	65,328,768	5,047,045	70,375,813
2008	70,120,974	5,098,760	75,219,734
2009	60,898,941	1,886,741	62,785,682
2010	61,696,738	353,391	62,050,129
2011	62,338,653	191,092	62,529,745
2012	59,885,669	325,805	60,211,475
2013	58,495,629	414,832	58,910,461
2014	60,377,268	329,507	60,706,774
Totals	$ 1,005,568,767	$ 40,161,221	$ 1,045,729,987
		Expenditures	$ 926,939,637
		Balance	$ 118,790,350

Note: The City's Fiscal Year Ends June 30.

TABLE 7

Philadelphia International Airport
Historical Enplaned Passengers

Fiscal Year	Domestic	International	Total	Percentage Increase (Decrease)
1990	7,400,854	379,667	7,780,521	
1991	7,322,959	388,954	7,711,913	-0.9%
1992	7,041,274	534,004	7,575,278	-1.8%
1993	7,645,396	582,621	8,228,017	8.6%
1994	7,777,184	607,718	8,384,902	1.9%
1995	8,419,133	634,955	9,054,088	8.0%
1996	8,538,732	665,334	9,204,066	1.7%
1997	9,502,168	890,094	10,392,262	12.9%
1998	10,601,187	1,104,443	11,705,630	12.6%
1999	10,737,979	1,329,813	12,067,792	3.1%
2000	10,652,391	1,326,524	11,978,915	-0.7%
2001	11,149,732	1,521,721	12,671,453	5.8%
2002	10,501,846	1,499,659	12,001,505	-5.3%
2003	10,519,234	1,617,391	12,136,625	1.1%
2004	11,149,952	1,938,821	13,088,773	7.8%
2005	13,427,191	2,063,378	15,490,569	18.4%
2006	13,563,540	2,011,457	15,574,997	0.5%
2007	13,864,721	1,986,970	15,851,691	1.8%
2008	13,971,056	2,081,917	16,052,973	1.3%
2009	13,357,446	2,005,297	15,362,743	-4.3%
2010	13,113,239	2,080,502	15,193,741	-1.1%
2011	13,407,158	2,204,425	15,611,583	2.8%
2012	13,134,251	2,209,875	15,344,126	-1.7%
2013	13,021,515	2,194,370	15,215,885	-0.8%
2014	13,059,804	2,256,249	15,316,053	0.7%

	Average annual percent increase		
1990-2001	3.8%	13.5%	4.5%
1996-2001	5.5%	18.0%	6.6%
2001-2014	1.2%	3.1%	1.5%

Note: The City's Fiscal Year ends June 30.

FINANCIAL STATEMENTS
OF THE DIVISION OF AVIATION

For purposes of calculating Scheduled Airline rentals, fees and charges, and demonstrating compliance with the Rate Covenant, Aviation Fund accounts are maintained on the accrual basis of accounting adjusted to meet the particular requirements of the General Airport Revenue Bond Ordinance of the City. Using this basis of accounting, revenues are recorded as they are earned, and operating expenses are recorded as they are incurred. In addition, principal payments on debt are recorded as an element of expense in lieu of depreciation, and equipment purchases and other capital outlays funded from operations are charged to expense in the year of acquisition.

For purposes of budgeting, Aviation Fund accounts are maintained on the modified accrual basis of accounting also referred to as the "legally enacted basis." Under this basis, revenues are recorded in the year received. Obligations are recognized and recorded as expenses at the time they are paid or encumbered. A reserve is maintained for encumbrances at the close of the fiscal year, intended to be sufficient to liquidate the estimated related obligations.

The accounting policies of the City of Philadelphia, as reflected in the accompanying Aviation Fund financial statements, conform to accounting principles generally accepted in the United States of America for local government units as prescribed by the Governmental Accounting Standards Board. Accounting principles generally accepted in the United States of America for proprietary funds, such as the Aviation Fund, require that both earnings and expenses be recorded as they accrue, and that depreciation of fixed assets be recorded as an expense. The financial statements for fiscal year 2014 are presented in accordance with accounting principles generally accepted in the United States of America.

The financial statements contained in the Financial Section of this document are reconcilable with the Basic Financial Statements contained in the City's Comprehensive Annual Financial Report for fiscal year 2014, which are audited by the Office of the Controller of the City of Philadelphia.

INTRODUCTION

Philadelphia International Airport (PHL, or the Airport) and Northeast Philadelphia Airport (PNE) are owned by the City of Philadelphia (the City) and operated by the Division of Aviation (the Division). The following discussion and analysis of the financial performance and activity of the Division is to provide an introduction and understanding of the basic financial statements of the Philadelphia Aviation Fund (Aviation Fund) for the fiscal year ended June 30, 2014 (FY 2014) with selected comparative information for the fiscal year ended June 30, 2013 (FY 2013).

This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto that follow this section. The financial statements presented are for the Aviation Fund only, and are not intended to present fairly the financial position of the City as a whole or the results of its operations and cash flows. The Comprehensive Annual Financial Report of the City provides complete financial information as to the City and its component units.

AIRPORT ACTIVITIES AND HIGHLIGHTS

- ✈ **Financial Position:** In FY 2014, the Aviation Fund strengthened its financial position with total revenues, including capital contributions, exceeding total expenses by \$28.0 million while assets exceeded liabilities by \$895.0 million, a 3.2 percent increase over the FY 2013 total of \$866.9 million. This amount includes Aviation Fund unrestricted net assets of \$45.7 million to supplement operational needs.

- ✈ **Passenger Traffic:** In FY 2014, domestic enplanement levels rebounded slightly and international outbound traffic reached a new peak in the history of the Airport. Landed weight also reflected moderate growth in FY 2014. Conversely, the Airport experienced a decrease in aircraft operations due in part to the cumulative effect of the winter storms of FY 2014 and changes in aircraft fleet mix instituted by PHL's mainline carriers to enhance efficiencies and economies of scale.

Enplanements and Operations Activity at PHL

	Fiscal 2014	Fiscal 2013	% Increase (Decrease) from 2013
Domestic Enplanements (Outbound passengers):	13,059,804	13,021,515	0.3%
International Enplanements (Outbound passengers):	2,256,249	2,194,370	2.8%
Total Enplanements (Outbound passengers):	15,316,053	15,215,885	0.7%
Operations (Takeoffs & landings):	421,549	438,264	-3.8%
Landed Weight (1,000-pound units):	20,691,685	20,638,367	0.3%

✈ **Capacity Enhancement Program and Capital Development:** The Capacity Enhancement Program (CEP) is a complex, long-term multi-billion dollar effort to expand the capacity, improve efficiency, and modernize the facility of the airport in order to maintain Philadelphia's competitive position in the region. The Federal Aviation Administration (FAA) issued a Letter of Intent to contribute $466.5 million toward the CEP over the 12-15 year life of the program. In addition to Federal funds, the CEP will be financed by Airport Revenue Bonds and a variety of other funding sources, such as user fees and additional grants. The following projects are currently in the construction, design or planning phase:

- Airfield Improvements – Design and construction of a runway extension, new taxiways and aircraft holding bays/aprons to accommodate larger, long-haul aircraft and allow aircraft to queue more efficiently for departure ($118 million budget – part of this project is being designed and part of it is under construction)
- Automated People Mover – Initial design for an automated people-mover system between concourses that will make it easier for passengers to connect to other flights ($30 million planning and design budget – planning phase)
- Terminal Modernization Program – A redesigned and enhanced Terminal B/C ticketing area, which will include a new, automated baggage handling and screening system and a new, more spacious, centralized passenger security screening checkpoint to provide for greater efficiency and enhanced passenger flow ($247 million budget – planning phase)
- Consolidated Rental Car Facility – Replacement of the current rental car facility surface lots with a new, multi-story consolidated rental car facility ($321 million – planning phase)
- Renovation and Rehabilitation Projects – Continued renovation and rehabilitation of existing airport infrastructure to include: security upgrades, roof and window replacements, escalator upgrades, restroom renovations, roadway improvements, concession program enhancements and flight information display system upgrades ($67 million – various phases)
- Various Land Acquisition Projects

✈ **Commercial Paper Program:** PHL established a $350 million commercial paper (CP) program in January 2013 to provide funding for capital projects approved by PHL's signatory airlines. CP is a short-term financing tool with a maximum maturity of 270 days. PHL's CP Program enables capital projects to be financed on an as-needed basis, which lowers the Airport's cost of borrowing and limits negative arbitrage during project construction periods. CP Notes will continue to be "rolled over" until long-term bonds are issued to refund outstanding CP. As of June 30, 2014, PHL had drawn $39.7 million of CP, which was used to fund ongoing capital projects, program management efforts and the purchase of two land parcels.

✈ **Customer Facility Charges:** On November 25, 2013, the Governor of Pennsylvania signed a comprehensive transportation bill into law (Act 89 of 2013) which permitted PHL to establish and collect a customer facility charge (CFC) of not more than $8 per rental day on customers renting motor vehicles from Airport rental car operators. The proceeds of the CFC collections are to be used solely for the planning, development, financing, construction and operation of a consolidated rental car facility. Rental car operators began collecting CFCs in May 2014 from their customers and remitting them to the Airport. As of June 30, 2014, CFC collections totaled nearly $4.9 million.

✈ **Grant Funding:** In FY 2014, PHL was awarded the following grants:

- $19.7 million from the FAA's LOI for the airfield construction of Taxiway EE and the partial realignment of Taxiway H project.
- $9.3 million from the FAA's LOI for the airfield construction of the extension of Taxiway K.
- $998,000 from the Transportation Security Administration (TSA) for the continuation of the installation of Closed Circuit Television Cameras (CCTV).
- $800,000 from Pennsylvania Department of Transportation's Bureau of Aviation matching the FAA's Federal Fiscal Year 2013 LOI grant for construction of Taxiway K5, a high speed exit off of Runway 9L-27R.

✈ **Use and Lease Agreement:** In January 2013, PHL and US Airways agreed upon a two-year extension to the Airport-Airline Use & Lease Agreement (Airline Agreement). The most recent extension will run through June 30, 2015 and authorized $734 million in new capital investments, bringing the total airline commitment to advance PHL's CEP and to rehabilitate and repair the Airport's existing infrastructure to approximately $1.156 billion. The Airport and airlines are in the process of negotiating either an extension to the current Airline Agreement or a new Use & Lease Agreement that would take effect on July 1, 2015.

✈ **Capital Projects**

<u>Airfield Projects</u>

- **Stage One Airfield:** In 2014, phases of the Stage One Airfield Project got underway with construction of a new Taxiway EE and a partial realignment of Taxiway H. The second phase, which is in design, will provide a 1,500-foot extension of Runway 9R-27L that will increase the total runway length to 12,000 feet, providing the capability to accommodate large, long-haul aircraft flying to any point on the globe. In phase three, a new localizer antenna array for Runway 9R-27L will be installed along with a new prefabricated shelter. All associated civil and electrical infrastructure will also be performed at this time. The entire project is expected to be complete by the end of 2017 at an estimated cost of $118 million.

- **Taxiway K Extension:** This project extends Taxiway K from Taxiway Y to Z, and to parallel Taxiway J, thereby increasing the taxi flow between the terminal complex and runways in both east and west flow operations. The project also provides dual queuing for the deicing facility and serve as a perimeter route for Runway 9R-27L departures in order to avoid crossing Runway 9L-27R during west flow operations. The project was substantially complete in October 2014 at an approximate cost of $22 million.
- **Rehabilitation of Runway 9L-27R:** This project involves resurfacing the 9,500-foot long by 150-foot wide asphalt runway and connector taxiways. The base cans and conduit infrastructure, which house the light bulbs and electrical wiring for the runway's centerline and edge lighting systems, are also being completely overhauled. The current runway centerline lights used in the system will be replaced with LED light bulbs, resulting in a longer life and better energy conservation. The new lighting infrastructure will also house the FAA's runway status light systems. The project was substantially complete in October 2014 at an approximate cost of $43 million.

Terminal Projects

- **Terminal F Expansion:** Terminal F, which accommodates the operations of US Airways Express, is being expanded and renovated to provide additional facilities for the processing of passengers and baggage and to enhance airline operations. The project reconfigures the terminal and adds approximately 80,000 square feet to the existing 205,000-square foot facility. PHL completed phase one of the Terminal F expansion project that includes a newly revamped and expanded "Central Hub." The center of the bustling facility underwent a complete makeover and had a grand reopening in 2014 featuring five times as many food, beverage and retail offerings, and a food court seating area that has grown by 400 percent to 300 seats. Phase Two of this project will provide additional capacity for passenger and baggage processing and US Airways Express airline operations. The expansion includes a new baggage claim building on the arrivals roadway providing two claim devices; new restrooms at the ticketing building; a corridor linking Terminals F and E to allow passengers to move between all Airport terminals without having to leave the secure areas to be rescreened; a redesigned security checkpoint that has additional screening capacity and latest screening technology; and other infrastructure improvements. Construction for this phase began in 2013 and is expected to be completed by spring of 2016. The total estimated cost of the Terminal F expansion project is $161 million.

- **Terminal A-East Improvements:** This project consists of various improvements to the Terminal A-East building and concourse to make them fully compatible with the adjacent international Terminal A-West. The first phase of the work, which included conversion of space formerly occupied by Federal Inspection Services (FIS) agencies; creation of a new eight-lane security checkpoint, new ticket counters and an upgrade to the fire alarm and fire protection systems, was completed in late-2007. The second phase of work, which included improvements to the concourse and related spaces, was completed in mid-2011. The final phase, which modifies the outbound baggage handling system to provide a full in-line Explosive Detection System for checked baggage, was substantially complete in July 2014. Supplemental changes were added to the project scope including the addition of LED lighting. The added work is in progress and is expected to be completed in July 2015. The total estimated cost of the Terminal A-East project is $82 million.
- **Terminal D/E Modernization and Expansion Project:** Previously completed phases of this project include a new 210,000-square foot multi-level connector building between Terminals D and E, which provided a new baggage make-up area and a fourteen-lane passenger security screening area serving both terminals; a 50,000-square foot addition to the Terminal E concourse which provided three additional passenger gates; a 9,000-square foot connector building between baggage claim areas for Terminals D and E; and various renovations to other areas within the two terminals and the adjacent Thermal Plant. The final phase of this project will be the completion of the installation of an in-line Explosive Detection System. The entire project is expected to be complete in the summer of 2016 at an estimated cost of $378 million.
- **Terminal Signage:** The Terminal Way-finding Signage Upgrade project was initiated to address customer concerns related to the connectivity, continuity, consistency and intuitiveness of the signage within PHL. The signage upgrade will consist of a combination of new signage, sign replacement, and retrofitting of existing signs to address these issues affecting airport way-finding and the airport customer experience. The project is scheduled to be completed in March 2015 and will cost approximately $5 million.
- **Central Utilities Building (CUB):** The terminal complex from Terminal A-East to Terminal D is served by the boilers and chillers located in the CUB. Under this project, the boilers and chillers will be replaced, along with all related piping, by more modern and efficient equipment which will result in lower energy costs. This project is expected to be complete in April 2015 at an approximate cost of $8 million.
- **Closed-Circuit Television (CCTV):** The purpose of this multi-phased project is to design, install and operate a closed circuit system for shared use with TSA. The CCTV system includes all surveillance hardware, cameras, storage equipment and associated

electrical, cabling and support facilities that will monitor passenger and checked baggage screening areas at PHL. The project is expected to be complete in June 2015 with a total estimated cost of $6.5 million.

✈ Environmental Stewardship

- In calendar year (CY) 2013, PHL, US Airways, and the Airport's concessionaire manager, MarketPlace Philadelphia Management (MarketPlace), combined recycling efforts, resulting in a reduction of greenhouse gas emissions by 5,820 metric tons CO_2 equivalent (MTCO2E). PHL diverted approximately 22 percent of waste from landfills through the recycling program in the terminals, warehouse, and office spaces. In addition to plastics, cardboard, metals, paper and glass, the Airport recycles electronics, batteries, fluorescent lamps, and miscellaneous construction and demolition materials collected. MarketPlace also recycles electronics, mixed recyclables and metals. In CY 2013, over 15,000 gallons of fryer oil was recycled, which resulted in the production of approximately 11,000 gallons of biodiesel.

- In CY 2014, PHL updated its greenhouse gas (GHG) emissions inventory using CY 2013 data, compared to the previous inventory done for CY 2006, the baseline year. Overall, GHG emissions have decreased by approximately 2 percent since 2006, in part due to a decrease in aircraft operations. The inventory was organized by source: Airport, tenants, and public sources of emissions. Aircraft emissions fall under the tenant category and represent the largest source of GHG emissions. The Airport has assisted airlines in purchasing electric ground support equipment and is implementing other emissions reduction initiatives such as heating, ventilation, and air conditioning (HVAC) upgrades, generator retrofits, and energy efficiency lighting.

- Within the terminal complex, numerous energy conservation measures have been undertaken. During CY 2014, three new boilers, one chiller and related upgrades were installed in the Airport's CUB. These installations will help with the reduction of fuel consumption and emissions related to heating a large portion of the terminal area. Additionally, an LED lighting project was completed in Terminal B/C airline holdroom space during the spring of 2014 to conserve energy.

✈ Awards and Recognition

- **Airport Architectural, Engineering, Construction Award:** PHL was the 2014 recipient of the Airport Architectural, Engineering, Construction Award presented by the Airport Minority Advisory Council (AMAC). The award was presented at AMAC's business diversity conference held in Denver, Colorado in June 2014.

- **Business & Arts Partnership Award:** In May 2014, the Arts & Business Council of Greater Philadelphia presented PHL with the Business & Arts Partnership Award for its acclaimed Exhibitions Program. The Airport's arts program was implemented in 1998 to help enhance the airport experience for the traveling public through visual arts and to provide visibility for regional artists. Currently, the airport has approximately twenty rotating exhibits on display.
- **Balchen-Post Award – Honorable Mention:** In April 2014, the Airport received an honorable mention in the large hub airport category for the Balchen-Post Award, which the Northeast Chapter of the American Association of Airport Executives awards annually to airports that have demonstrated "excellence in the performance of airport snow and ice control."
- **Diversity Award:** In December 2013, the Philadelphia Chapter of the Women's Transportation Seminar (WTS) presented PHL with its 2013 Diversity Award in recognition of the Airport's contributions to promoting diversity and inclusion and multi-cultural awareness within the organization, as well as supporting the goals and mission of WTS.
- **Headliner Award:** In December 2013, The Greater Philadelphia Hotel Association presented its 2013 Headliner Award to the Airport in recognition of PHL's hospitality and improvement initiatives.
- **Waste Watcher Award:** In acknowledgement of its outstanding achievements and initiatives in reducing waste destined for landfills and efforts in promoting and encouraging recycling, the Professional Recyclers of Pennsylvania presented PHL with its 2013 Pennsylvania Waste Watcher Award. The Award is presented to organizations that have made a significant contribution in recycling, composting and waste reduction/reuse efforts during the previous calendar year. The Award was announced at the organization's Annual Recycling & Organics Conference in July 2013 in Wilkes-Barre, Pennsylvania.
- **Award of the Organization:** In July 2013, AMAC presented PHL with the "Award of the Organization", in recognition of PHL's significant contributions in implementing programs for and fostering growth of disadvantaged businesses, while meeting and exceeding Equal Employment Opportunity goals. The annual AMAC awards go to individuals, airports and airport-connected firms that excel in industry-leading methods for inclusive hiring and aggressive outreach toward historically disadvantaged business enterprises (DBEs) in contract and business opportunities. As one of the largest economic drivers in the region, the Airport is committed to diversity and inclusion.

✈ **Air Service Announcements**

- In April 2014, Qatar Airways commenced daily nonstop service to Doha, the capital city of the Persian Gulf state.
- In May 2014, US Airways began twice-daily service to Watertown, NY; in June 2014, US Airways began new daily service to Charleston, WV; also in June 2014, US Airways began an additional daily flight to Lexington, KY and Memphis, TN for a total of three daily non-stop flights to these cities; in September 2014, US Airways began twice-daily flights to Grand Rapids, MI; and in October 2014, US Airways began twice-daily flights to Fort Wayne, IN. Each is operated as US Airways Express.
- In October 2014, Spirit Airlines announced new daily nonstop service to Chicago, IL (O'Hare) that will commence in mid-April 2015. Also, in February 2015, Spirit announced it will begin new daily nonstop service to Atlanta, GA in June 2015.
- In November 2014, American Airlines announced a second daily nonstop flight to London (Heathrow) starting in late March 2015.
- Also in November 2014, Delta Air Lines announced new daily nonstop service to London (Heathrow) starting in early April 2015.
- In late December 2014, Frontier Airlines began daily nonstop service to Miami, Orlando, and Tampa Bay, FL, and five days per week service to Cancun, Mexico. In February 2015, Frontier announced it will begin flights to Atlanta, GA, Charlotte, NC, and Chicago, IL (O'Hare) in March 2015 and new seasonal daily nonstop service to Houston, TX and Minneapolis, MN beginning April 30, 2015.

DESCRIPTION OF PHILADELPHIA AIRPORT SYSTEM

PHL is classified by the Federal Aviation Administration as a large air traffic hub (enplaning 1.0 percent 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 eighteenth busiest airport in the United States, serving 30.5 million passengers in calendar year 2013, and was ranked the tenth busiest in the nation based on aircraft operations.

The Airport 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

- *Land.* Approximately 2,394 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.
- *Runways.* The Airport's runway system consists of parallel Runways 9L-27R and 9R-27L, crosswind Runway 17-35, commuter Runway 8-26, and interconnecting taxiways.
- *Terminal Buildings.* Approximately 3.3 million square feet, consisting of seven terminal units (A-West, A-East, B, C, D, E and F). Terminal facilities principally include: ticketing areas, passenger holdrooms, baggage claim areas and approximately 170 food, retail and service establishments.
- *Other Buildings and Areas.* Consisting of six active cargo facilities, a US Airways aircraft maintenance hangar, and a former United States Postal Service building located at the western end of the Airport.
- *Outside Terminal Area.* Consisting of a 14-story, 400-room hotel, 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 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. The airport 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 190 general aviation aircraft based at PNE.

BACKGROUND INFORMATION ON THE AVIATION FUND

The Aviation Fund is an enterprise fund of the City. Enterprise funds are established by governmental units to account for services that are provided to the general public based on user charges, and they are operated in a manner similar to business-type activities. The Aviation Fund was created and authorized as part of the FY 1974 Operating Budget Ordinance approved by City Council on June 7, 1973 and made effective July 1, 1973.

The Aviation Fund is self-supporting, using aircraft landing fees, terminal building rentals, concession revenue and other facility charges to fund annual expenses. The Airport's capital program is funded by airport revenue bonds issued by the City, commercial paper, federal and state grants, Passenger Facility Charges (PFC), Customer Facility Charges (CFC), and operating revenues.

FINANCIAL STATEMENTS OVERVIEW

The basic financial statements of the Aviation Fund are designed to provide the reader with a broad overview of the organization's finances, in a manner similar to the private sector. The financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

The financial statements of the Aviation Fund are presented on an accrual basis, and accordingly, income is recorded as earned and expenses as incurred. Operating revenues are comprised of airline and non-airline revenues. Airline revenues are those paid by PHL's agreement carriers and include rents, landing fees, and per passenger fees. Non-airline revenues are all other operating revenues that do not qualify as airline revenue. These consist of concession fees, other rents, utilities and other operating revenue. Operating expenses include payroll and employee benefits; the purchase of services, materials and supplies; and depreciation/amortization. Non-operating revenue and expense items include interest income, interest expense, CFC and PFC revenues and operating grants.

Aviation Fund financial activity is presented in three financial statements:

- The S*tatement of Net Position* presents information on all Aviation Fund assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position, with assets and liabilities classified as either current or non-current. The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is reported as *net position.* Net position is segregated into four components: net investment in capital assets; restricted for capital projects; restricted for debt service; and unrestricted net assets.

- The S*tatement of Revenues, Expenses and Changes in Fund Net Position* presents revenue and expense activity for the current year. The difference between revenue and expense will either increase or decrease total net position. The ending balance of net position resulting from this increase or decrease is reflected on the Statement of Net Position.

- The S*tatement of Cash Flows* presents the actual inflow and outflow of cash by category during the year. The difference between the inflow and outflow of cash increases or decreases the total cash balance. The resulting ending cash balance is reflected on the Statement of Net Position.

The Aviation Fund financial statements can be found in Section II of this report. The Notes provide additional information that is essential to a full understanding of the data provided in the Aviation Fund financial statements. In addition to the basic financial statements and accompanying notes, government accounting standards require presentation of *required supplementary information* (RSI).

Please see the Comprehensive Annual Financial Report of the City of Philadelphia for complete financial information for the City and its component units, which can be found at: http://www.phila.gov/investor/CAFR.html.

FINANCIAL POSITION

The following table summarizes the Airport's assets, deferred outflows, liabilities and net position at June 30, 2014 and June 30, 2013:

City of Philadelphia – Aviation Fund
Statements of Net Position
(amounts expressed in thousands)

	2014	2013	Dollar Change from 2013	Percentage Change from 2013
Current and other assets	$ 493,391	$ 531,281	$ (37,890)	-7.1%
Capital assets	1,812,358	1,805,027	7,331	0.4%
Total assets	2,305,749	2,336,308	(30,559)	-1.3%
Deferred outflows	26,746	31,897	(5,151)	-16.2%
Non-current liabilities	1,285,367	1,344,111	(58,744)	-4.4%
Current liabilities	152,159	157,166	(5,007)	-3.2%
Total liabilities	1,437,526	1,501,277	(63,751)	-4.2%
Net position:				
Net investment in capital assets	670,462	631,315	39,147	6.2%
Restricted for Capital Projects	96,837	73,007	23,831	32.6%
Restricted for Debt Service	81,992	83,512	(1,520)	-1.8%
Unrestricted	45,677	79,095	(33,418)	-42.3%
Total net position	$ 894,969	$ 866,929	$ 28,040	3.2%

Total net position serves as a useful indicator of the Airport's financial position and is a measurement of the financial condition of the Airport at a specific point in time. At June 30, 2014, the Aviation Fund's assets and deferred outflows exceeded liabilities by $895.0 million. Between FY 2013 and FY 2014, total net position increased by $28.0 million. Changes in total net position are summarized below:

- **Total assets** decreased by a net of $30.6 million. Current and other assets decreased by $37.9 million primarily due to a decrease in cash and investments in the Operating Fund, the majority of which is attributable to increased FY 2014 costs for fringe benefits, specifically pensions and health care. Conversely, capital assets increased by a net of $7.3 million due to capital outlays totaling $106.3 million resulting from ongoing Airport expansion projects, and offset by depreciation of $98.9 million.

- **Deferred outflows of resources** decreased by $5.2 million. The decrease consisted of $3.8 million due to the change in the fair value of the Airport's hedging instrument and $1.3 million as a result of amortizing the loss on the refunding of bond issues.

- **Total liabilities** decreased by a net of $63.8 million. The long-term portion of liabilities decreased $58.7 million primarily due to the retirement of long-term debt totaling $66.8 million. This decrease, along with a $3.8 million decrease in the mark-to-market value of the Airport's derivative instrument during the course of FY 2014 was offset by increases in the Airport's net pension obligation and other long-term liabilities of $8.8 million and $3.1 million, respectively.

- **Net investment in capital assets** increased by $39.1 million. Capital assets increased by $106.3 million, less $98.9 million in depreciation expense. This overall net increase in capital assets of $7.3 million was supplemented by net increases in related debt of $31.8 million. Related debt included a net reduction in bonds payable, the issuance of commercial paper, and unamortized premiums and refunding losses of $62.2 million. This increase was offset by a reduction of $24.6 million in unspent capital debt proceeds and a $5.8 million increase in construction contracts payable. Although these capital assets assist the Airport in providing services to the traveling public, they are generally not available to fund operations of future periods.

- **Restricted for capital projects** represent funds available but restricted for construction of capital assets, reduced by debt payable on those funds. This balance increased by $23.8 million in FY 2014 as a result of a $20.1 million increase in the PFC balance reserved for "Pay as you go" construction, a $3.3 million increase in the CFC and PFC receivable, and a $0.5 million deposit to the Airport's renewal fund.

- **Restricted for debt service** decreased by $1.5 million. This decrease is a direct result of the Series 2010A capitalized interest account being used, by design, for debt service during the course of FY 2014.

- **Unrestricted net position** decreased by $33.4 million. The unrestricted component of net position represents the net amount of total assets, deferred outflows of resources, and total liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position. The net decrease consisted of a decrease of $18.6 million in operating cash and investments, receivables and inventory; a decrease of $17.0 million in grants receivable; and an increase of $2.2 million in payables and other liabilities. Unrestricted net position may be used to supplement the Airport's ongoing operations.

The following table compares the changes in revenues, expenses and fund net position between FY 2014 and FY 2013:

City of Philadelphia – Aviation Fund
Statements of Revenues, Expenses and Changes in Fund Net Position
(amounts expressed in thousands)

	2014	2013	Dollar Change from 2013	Percentage Change from 2013
Operating revenues	$ 315,414	$ 291,367	$ 24,047	8.3%
Operating expenses	335,449	304,719	30,730	10.1%
Operating loss	(20,035)	(13,352)	(6,683)	50.1%
Non-operating expenses, net	(37,482)	(51,893)	14,411	-27.8%
Loss before capital contributions	(57,517)	(65,245)	7,728	-11.8%
Capital contributions	85,557	97,880	(12,323)	-12.6%
Changes in net position	28,040	32,635	(4,595)	-14.1%
Net position beginning of year	866,929	834,294	32,635	3.9%
Net position end of year	$ 894,969	$ 866,929	$ 28,040	3.2%

Airport income (loss) before capital contributions is composed of operating and non-operating revenues, net of expense. Capital contributions represent federal and state grants for approved capital projects and Passenger Facility Charge collections.

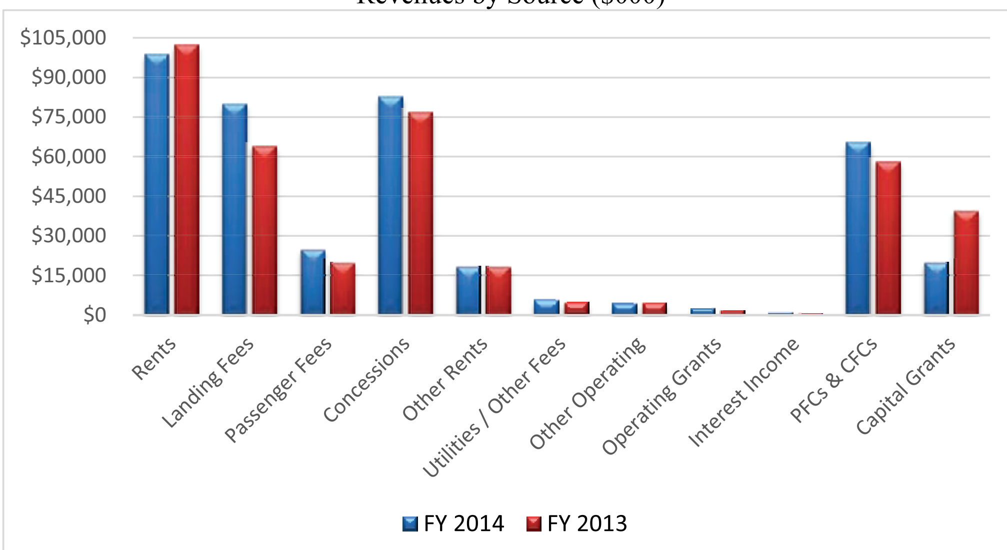
The change in net position represents the results of operations and is a useful indicator of whether the overall financial condition of the Airport has improved or declined during the year. In FY 2014, net position increased by $28.0 million from the prior year. This increase reflects Airport net income or loss and capital contributions.

Revenues

Approximately 78 percent of all revenue came from operating sources, which include space rentals, landing fees and revenues from parking, concessions and car rentals. PFC revenues account for another 16 percent, with the remainder coming from federal and state grants and interest earnings. Approximately 35 percent of operating revenues came from nonairline revenue such as parking, rental cars, concessions and other fees. A further breakdown of revenues can be found in the Statistical Section.

The graph below presents the major components of revenue for FY 2014 and FY 2013, followed by explanations of changes in these categories between years.

Revenues by Source ($000)



- ✈ Operating revenues are comprised of airline and non-airline revenues. Airline revenues are those paid by PHL's agreement carriers and include the first three categories in the above chart; rents, landing fees, and per passenger fees. Non-airline revenues are all other operating revenues that do not qualify as airline revenue. These consist of concession fees, other rents, utilities and other operating revenue. Operating revenues increased by 8.3 percent or $24.0 million in FY 2014.

    - Rents derived from PHL's signatory airlines decreased by 3.5 percent or $3.6 million in FY 2014 due primarily to the change in unearned revenue, also known as the airline overpayment, from FY 2013 to 2014. That $5.4 million decrease in the accrual for unearned revenue was offset by a 6.8 percent increase in the signatory rental rates in FY 2014.

- Landing fees derived from PHL's signatory airlines increased by 25.1 percent or nearly $16.1 million in FY 2014 due primarily to the change in accrued revenue, also known as the airline underpayment, from FY 2013 to 2014. That $12.9 million change in accounting for accrued revenue was supplemented by an increase in the signatory landing fee rate from $2.91 per 1,000-pound unit in FY 2013 to $3.27 per 1,000-pound unit in FY 2014.

- Passenger fees derived from PHL's signatory airlines increased by 24.1 percent or $4.8 million in FY 2014 due primarily to an average increase of 22.4 percent in the signatory passenger rates in FY 2014.

- Concessions consist primarily of revenues derived from food and beverage/retail/service establishments, on-Airport and off-Airport parking operations, and rental car operations. Concession fees increased 7.7 percent or $5.9 million in FY 2014 mainly due to increases in revenue resulting from the Airport's concession development program from the grand reopening of concessions in Terminal F, which had limited concession operations during its recent renovation and expansion project. Terminal F's Central Hub doubled in size to 60,000 square feet and features five times as many food, beverage and retail offerings.

✈ Non-operating revenues, which consist of federal, state and local grants for non-capital purposes and interest income, increased by 55.2 percent or $1.3 million in FY 2014.

- Grants from other governments for non-capital purposes (operating grants) increased by 49.5 percent or $0.8 million in FY 2014. This gain in revenue is entirely attributable to an increase in the Transportation Security Administration's (TSA) federal grant reimbursement for PHL's deployment of law enforcement officers.

- Interest income increased by 70.3 percent or $0.4 million in FY 2014 which is reflective of the overall performance of the Airport's investments across all funds.

✈ Capital contributions, which consist of federal, state and local grants for capital purposes, passenger facility charges, and customer facility charges, decreased by 12.6 percent or $12.3 million in FY 2014.

- Grants from other governments for capital purposes (capital grants) decreased by 49.5 percent or $19.6 million in FY 2014. Capital grant revenue in any given year is dependent upon construction timelines for reimbursement of grant-eligible Airport capital projects. However, in FY 2013, PHL received full reimbursement of $16.0 million from the FAA's Letter of Intent (LOI) for the purchase of two land parcels to be used for development of the Airport through the CEP. In FY 2014, PHL continues to be reimbursed as expenditures are incurred for LOI eligible construction projects.

- Passenger Facility Charges (PFCs) increased by 4.2 percent or nearly $2.5 million in FY 2014 due in part to an increase in outbound passenger traffic.

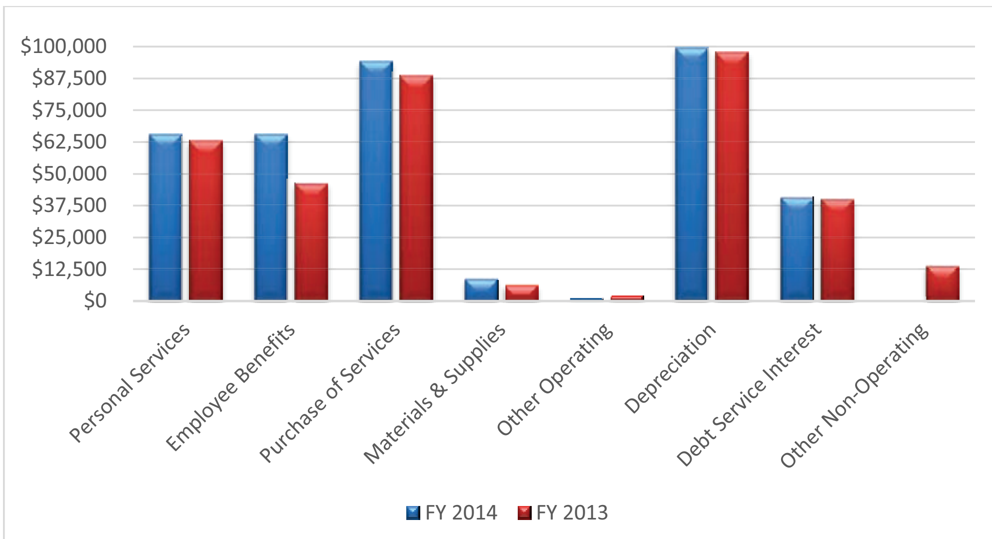
- Customer Facility Charges (CFCs) totaled nearly $4.9 million in FY 2014. As explained in the Airport Activities and Highlight section earlier, rental car operators at PHL began to impose a customer facility charge in May 2014 of not more than $8 per rental day on customers renting motor vehicles from the Airport. The proceeds of the customer facility charges are to be used solely for the planning, development, financing, construction and operation of a consolidated rental facility.

Expenses

Airport expenses result from a wide range of services. Wages, benefits and contractual services account for 59.9 percent of total expenses; depreciation and amortization comprise an additional 26.5 percent of the total, with the remainder accounting for debt service interest and other operating and non-operating expenses.

The graph below presents the major components of expense for FY 2014 and 2013, followed by an explanation of changes in these components.

Expenses by Source ($000)



- ✈ Operating expenses, which includes the first six categories in the bar chart above, increased by 10.1 percent or $30.7 million in FY 2014.
    - ▪ Personal services and employee benefits increased by a total of 19.7 percent or $21.6 million in FY 2014.
        - o Personal services increased 3.9 percent or $2.4 million in FY 2014 due in part to the firefighters' arbitration award in September 2013 which released four years of back pay and raises. Additionally, severe winter weather events contributed to increased Aviation overtime costs for snow removal in FY 2014.
        - o Employee benefits increased 41.3 percent or $19.2 million in FY 2014 due to several factors. Aviation's share of the City's net pension

obligation of nearly $454.5 million, increased $8.8 million, to $23.1 million in FY 2014. Additionally, the Airport incurred $3.3 million of increased actual pension and pension obligation bond costs in FY 2014, an 11.0 percent increase. Also, Aviation's estimated outstanding workers' compensation liabilities increased $2.0 million in FY 2014.

- Purchase of services increased by 6.4 percent or $5.7 million in FY 2014 due mainly to the severe winter weather experienced in the northeast corridor of the country. PHL realized an additional $4.5 million of costs for snow removal contractual services in FY 2014 and a $0.5 million increase in natural gas costs, year-over-year.

- Materials and supplies and other operating expenses, including the purchase of equipment, increased $1.5 million or 18.0 percent in FY 2014 due mainly to the severe winter weather. The majority of the increase is attributable to the purchase of runway deicer fluid, which amounted to a total of $1.6 million in FY 2014 for both PHL and PNE.

- Depreciation and amortization expense increased 2.0 percent or $1.8 million in FY 2014. The straight-line method is used to record depreciation starting in the year following addition.

✈ Non-operating expenses, which includes debt service interest and other non-operating expenses, decreased 24.3 percent or $13.1 million in FY 2014. This decrease consists primarily of the amounts capitalized to construction in progress (CIP) in previous fiscal years for the Airport's Residential Sound Insulation Program that were included in non-operating expenses in FY 2013. That one-time adjustment of $13.9 million was offset by the increase of $0.8 million in FY 2014 debt service interest expense.

The following table shows the major sources and uses of cash for FY 2014 and FY 2013:

City of Philadelphia – Aviation Fund
Statements of Cash Flows
(amounts expressed in thousands)

	2014	2013	Dollar Change from 2013	Percentage Change from 2013
Cash received from operations	$285,183	$270,422	$ 14,761	5.5%
Cash expended from operations	(224,546)	(209,758)	(14,788)	7.1%
Net cash provided by operations	60,637	60,664	(27)	0.0%
Net cash provided by non-capital financing activities	2,120	2,188	(68)	-3.1%
Net cash provided by (used in) capital and related financing activities	(105,012)	(145,694)	40,682	-27.9%
Net cash provided by (used in) investing activities	(2,697)	64,951	(67,648)	-104.2%
Net (decrease) in cash and cash equivalents	(44,952)	(17,891)	(27,061)	151.3%
Balance beginning of year	72,283	90,174	(17,891)	-19.8%
Balance end of year	$ 27,331	$ 72,283	$ (44,952)	-62.2%

The Statements of Cash Flows present how the Airport's cash and cash equivalents position changed during the course of the fiscal year. Sinking funds and reserves held by the fiscal agent are not considered cash. In FY 2014, the Airport changed the presentation to extract the values of investments that do not qualify as cash equivalents, those that exceed 90 days of maturity from date of purchase.

Cash that was temporarily idle during fiscal years 2014 and 2013 was invested in demand deposits, certificates of deposits, commercial paper, United States government and agency obligations and other investments permitted under the City's investment policy.

During FY 2014, proceeds from the issuance of debt totaled $132.0 million which is merely a function of "rolling" commercial paper (CP) at maturity; this occurred seven times in FY 2014.

Cash expended for capital construction, reflected in net cash provided by capital and related financing activities, was $73.9 million and $176.1 million for fiscal years 2014 and 2013, respectively. Grant proceeds used to fund capital projects, reflected in net cash provided by capital and related financing activities, totaled $37.4 million and $27.5 million for fiscal years 2014 and 2013, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Airport's investment in capital assets, net of accumulated depreciation, amounted to slightly more than $1.8 billion at the end of FY 2014. The following table presents the changes in capital assets for FY 2014.

City of Philadelphia – Aviation Fund
Capital Assets
(amounts expressed in thousands)

	FY 2013	Additions	Deletions	FY 2014
Non-Depreciable Assets				
Land and Intangibles	$ 146,240	$ 757	$ -	$ 146,996
Construction in Progress	323,394	106,812	(29,147)	401,059
Total Non-Depreciable Assets	469,634	107,569	(29,147)	548,055
Depreciable Assets				
Buildings	1,797,865	19,198	-	1,817,063
Infrastructure	919,139	9,192	-	928,331
Equipment	53,679	303	(841)	53,142
Total Depreciable Assets	2,770,683	28,694	(841)	2,798,536
Accumulated Depreciation				
Capital Additions	(837,707)	(61,640)	-	(899,347)
Infrastructure	(560,910)	(34,774)	-	(595,684)
Equipment	(36,672)	(3,294)	765	(39,202)
Total Accumulated Depreciation	(1,435,290)	(99,708)	765	(1,534,233)
Net Depreciable Assets	1,335,393	(71,014)	(76)	1,264,303
Total Capital Assets	$ 1,805,027	$ 36,555	$ (29,223)	$ 1,812,358

Capital Assets

Major capital asset events for which capital expenditures were incurred during FY 2014 include the following:

- ✈ *Construction in Progress.* Capital asset additions included $106.8 million in construction in progress in FY 2014. Major projects under construction during the fiscal year included: Terminal F renovation and expansion; rehabilitation and resurfacing of Runway 9L-27R; improvements to Terminal A-East; taxiway work related to Stage One Airfield Development; Taxiway K extension; and expansion and modernization of Terminals D and E.

✈ *Buildings, Infrastructure & Equipment.* Fixed asset additions totaled $28.7 million during FY 2014. It is the Airport's policy that when projects are completed, they are transferred from construction in progress to fixed assets. Significant design and construction projects completed during FY 2014 include the following:

- Terminal B/C restroom renovations ($5.6 million)
- Airfield Signage System Upgrade ($4.5 million)
- Emergency Generators (2) Replacement ($3.6 million)
- Terminal F Pre-conditioned Air Upgrades ($3.6 million)
- Security Gate Hardening ($2.0 million)
- Electrical Substation Rehabilitation ($2.0 million)

Long-Term Debt

Principal paid on debt instruments totaled $59.2 million for FY 2014. Interest payments on debt instruments totaled $41.4 million for FY 2014, net of $23.8 million which was capitalized to construction in progress.

The following table summarizes the changes in long-term debt, including the current portion, for FY 2014:

City of Philadelphia – Aviation Fund
Changes in Long-Term Debt
(amounts expressed in thousands)

	FY 2013	Additions	Retirements/ Repayments	FY 2014
Revenue bonds	$ 1,315,455	$ -	$ 59,190	$ 1,256,265

As of June 30, 2014, total revenue bonds payable of $1.256 billion, less current maturities of $62.4 million, equated to $77.95 per enplaned passenger, compared to $82.56 as of June 30, 2013.

Fitch, Moody's and Standard & Poor's (S&P) maintained their ratings of "A", "A2", and A+, respectively, for PHL's outstanding airport revenue bonds. Fitch and Moody's affirmed a stable outlook to the Airport, whereas S&P revised its outlook to negative from stable due to the increasing debt that may be issued as part of the Airport's future expansion plans and the uncertainty of the size and breadth of American Airlines' new network given its recent merger with US Airways. However, S&P stated that PHL could return to a stable outlook with settled airline agreement terms, which includes American Airlines position on preserving PHL as a hub operation.

Table 4, "Summary of Historical Project Revenues and Expenses," in the Introductory Section presents the calculation of Airport Revenue Bond debt service coverage (Rate Covenant Test 1) and total debt service coverage (Rate Covenant Test 2) in accordance with Section 5.01 of the Amended and Restated General Revenue Bond Ordinance (GARBO). Rate Coverage Test 1 requires PHL to maintain debt service coverage of not less than 1.50x and Rate Covenant Test 2 requires debt service coverage of not less than 1.0x. Debt service coverage is calculated based on a formula in GARBO. Historically, PHL has maintained a coverage ratio significantly higher than its requirement. During FY 2014, PHL's debt service coverage for Test 1 was 2.37x and Test 2 was 1.54x.

BUDGETARY HIGHLIGHTS FROM FISCAL YEAR 2014

Actual expenditures for FY 2014 were 2.7 percent higher than budgeted expenditures. The following factors contributed to this difference:

- There was a 3.4 percent increase ($3.9 million) in direct expenses that were mainly related to Division of Aviation costs for payroll (overtime), contractual services, and materials & supplies, all of which is attributable to the significant snowfall that fell in the region during the course of FY 2014.
- Net interdepartmental charges were 4.2 percent ($4.2 million) higher than projected due to increases in fringe benefit costs (i.e. health & welfare) and deferred pension costs from FYs 2010 and 2011. Annual actuarial pension fund allocations for the Aviation Fund's share of the municipal pension fund are not available until after the operating budget process is completed, and thus may produce higher than anticipated costs.
- Net debt service was 0.3 percent ($0.3 million) higher than budgeted. Market conditions and overall requirements for the Sinking Fund Reserve prevented Aviation from transferring interest earnings to offset debt service payments at fiscal year-end 2014.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Philadelphia International Airport's finances and to demonstrate the City's accountability for the funds it receives and disburses. For additional information concerning this report, please contact: Deputy Director of Aviation – Finance and Administration, Philadelphia International Airport, Executive Offices, Terminal D, 3rd Floor, Philadelphia, PA 19153.

CITY OF PHILADELPHIA
AVIATION FUND
Statements of Net Position

	Fiscal 2014	Fiscal 2013	Percentage Increase (Decrease)
ASSETS			
Current assets			
Cash and cash equivalents	$ 6,614,497	$ 12,200,647	-45.8%
Accounts receivable	31,646,248	14,595,568	116.8%
Allowance for doubtful accounts	(1,099,334)	(1,070,128)	2.7%
Inventories	2,952,923	3,206,787	-7.9%
Investments	51,645,958	81,380,689	-36.5%
Due from other governmental units	1,228,188	864,512	42.1%
Total current assets	92,988,480	111,178,075	-16.4%
Non-current assets			
Restricted:			
Cash and cash equivalents	20,375,693	59,741,263	-65.9%
Cash held by fiscal agent	341,465	341,448	0.0%
Sinking funds and reserves held by fiscal agents	50,747,643	51,764,601	-2.0%
Investments	307,436,063	272,619,966	12.8%
Grants from other governments for capital purposes	12,210,084	29,597,509	-58.7%
Receivables	9,291,649	6,038,476	53.9%
Total restricted assets	400,402,597	420,103,263	-4.7%
Capital assets:			
Land and other non-depreciable assets	146,996,383	146,239,575	0.5%
Infrastructure	928,331,034	919,138,588	1.0%
Construction in progress	401,059,017	323,394,406	24.0%
Buildings and equipment	1,870,204,935	1,851,544,323	1.0%
Less: accumulated depreciation and amortization	(1,534,233,059)	(1,435,289,757)	6.9%
Property, plant and equipment, net	1,812,358,310	1,805,027,135	0.4%
Total assets	2,305,749,387	2,336,308,473	-1.3%
DEFERRED OUTFLOW OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	18,972,574	22,816,004	-16.8%
Refunding in defeasance of debt	7,772,943	9,080,870	-14.4%
Total deferred outflows of resourses	26,745,517	31,896,874	-16.2%
LIABILITIES			
Current liabilities			
Accounts and vouchers payable	15,110,436	16,192,244	-6.7%
Salaries and wages payable	1,828,847	1,568,964	16.6%
Construction contracts payable	27,284,796	21,510,083	26.8%
Accrued expenses	3,719,206	3,896,414	-4.5%
Unearned revenue	2,165,850	15,208,092	-85.8%
Commercial paper notes	39,700,000	39,600,000	0.3%
Current maturities of long-term bonded debt	62,350,000	59,190,000	5.3%
Total current liabilities	152,159,135	157,165,797	-3.2%
Non-current liabilities			
Revenue bonds, net	1,229,398,241	1,296,194,882	-5.2%
Derivative instrument liability	18,972,574	22,816,004	-16.8%
Net pension liability	23,078,661	14,272,888	61.7%
Other long-term liabilities	13,917,234	10,826,973	28.5%
Total non-current liabilities	1,285,366,710	1,344,110,747	-4.4%
Total liabilities	1,437,525,845	1,501,276,544	-4.2%
NET POSITION			
Net investment in capital assets	670,462,270	631,315,466	6.2%
Restricted for:			
Capital projects	96,837,351	73,006,546	32.6%
Debt service	81,992,163	83,511,838	-1.8%
Unrestricted	45,677,275	79,094,953	-42.3%
Total net position	$ 894,969,059	$ 866,928,803	3.2%

See notes to the financial statements.

CITY OF PHILADELPHIA
AVIATION FUND
Statements of Revenues, Expenses and Changes in Fund Net Position

OPERATING REVENUES	Fiscal 2014	Fiscal 2013	Percentage Increase (Decrease)
Airline revenues			
Rents	$ 98,895,068	$ 102,489,026	-3.5%
Landing fees	80,068,379	64,015,755	25.1%
International arrival fees	24,873,375	20,042,194	24.1%
Total airline revenues	203,836,822	186,546,975	9.3%
Nonairline revenues			
Concessions	82,883,917	76,955,003	7.7%
Other rents	18,413,060	18,468,679	-0.3%
Utilities and other fees	5,840,708	4,765,602	22.6%
Other operating revenues	4,439,768	4,630,590	-4.1%
Total nonairline revenues	111,577,453	104,819,874	6.4%
Total operating revenues	315,414,275	291,366,849	8.3%
OPERATING EXPENSES			
Personal services	65,636,270	63,190,699	3.9%
Purchase of services	94,403,544	88,684,536	6.4%
Materials and supplies	8,927,068	6,557,009	36.1%
Employee benefits	65,665,321	46,467,020	41.3%
Indemnities and taxes	1,108,774	1,945,850	-43.0%
Depreciation and amortization	99,707,937	97,873,389	1.9%
Total operating expenses	335,448,914	304,718,503	10.1%
Operating loss	(20,034,639)	(13,351,654)	50.1%
NON-OPERATING REVENUES (EXPENSES)			
Federal, state and local grants	2,483,722	1,661,600	49.5%
Interest income	1,076,392	632,234	70.3%
Debt service, interest	(40,966,678)	(40,179,599)	2.0%
Loss on disposal of fixed assets	(75,920)	(13,394)	466.8%
Other nonoperating expenses	-	(13,994,139)	-
Total non-operating revenues (expenses)	(37,482,484)	(51,893,298)	-27.8%
Loss before capital contributions	(57,517,123)	(65,244,952)	-11.8%
CAPITAL CONTRIBUTIONS			
Federal, state and local grants	20,046,410	39,691,462	-49.5%
Passenger & customer facility charges	65,510,969	58,188,449	12.6%
Total capital contributions	85,557,379	97,879,911	-12.6%
Change in net position	28,040,256	32,634,959	-14.1%
Net position beginning of period	866,928,803	834,293,844	3.9%
Net position end of period	$ 894,969,059	$ 866,928,803	3.2%

See notes to the financial statements.

CITY OF PHILADELPHIA
AVIATION FUND
Statements of Cash Flows

		Fiscal 2014		Fiscal 2013	Percentage Increase (Decrease)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	$	284,199,382	$	269,512,361	5.4%
Receipts from interfund services		983,574		909,426	8.2%
Payments to suppliers		(99,778,649)		(92,453,688)	7.9%
Payments to employees		(118,081,880)		(110,250,933)	7.1%
Internal activity-payments to other funds		(6,685,124)		(7,053,272)	-5.2%
Net cash provided by operating activities		60,637,303		60,663,894	0.0%
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Grant proceeds not specifically restricted for capital purposes		2,120,046		2,188,162	-3.1%
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Grant proceeds for capital purposes		37,433,835		27,482,846	36.2%
Purchase of capital assets		(73,850,619)		(176,083,227)	-58.1%
Proceeds from issuance of debt		132,000,000		52,600,000	151.0%
Principal paid on debt instruments		(191,090,000)		(64,465,000)	196.4%
Interest paid on capital debt		(71,673,505)		(43,672,462)	64.1%
Passenger & customer facility charges		62,167,787		58,443,590	6.4%
Net cash used in capital and related financing activities		(105,012,502)		(145,694,253)	-27.9%
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net proceeds (purchases) from sale and maturities of investments		(3,483,714)		64,028,710	-105.4%
Interest and dividends		787,164		922,671	-14.7%
Net cash provided by investing activities		(2,696,550)		64,951,381	-104.2%
NET DECREASE IN CASH AND CASH EQUIVALENTS		(44,951,703)		(17,890,816)	151.3%
Balance beginning of year		72,283,358		90,174,174	-19.8%
Balance end of year	$	27,331,655	$	72,283,358	-62.2%
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating loss	$	(20,034,639)	$	(13,351,654)	50.1%
Adjustment to reconcile operating loss to net cash provided by operating activities:					
Depreciation and amortization		99,707,937		97,873,389	1.9%
Bad Debts, net of recoveries		29,206		-	*
Changes in assets and liabilities:					
Receivables, net		(17,238,136)		(759,420)	2169.9%
Inventories		253,864		(242,695)	-204.6%
Accounts and other payables		10,961,313		(2,670,085)	-510.5%
Unearned revenue		(13,042,242)		(20,185,641)	-35.4%
Net cash provided by operating activities	$	60,637,303	$	60,663,894	0.0%

See notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

The Aviation Fund is a proprietary fund of the City of Philadelphia (the City). It was created and authorized as part of the Fiscal 1974 Operating Budget Ordinance approved by City Council on June 7, 1973, with an effective date of July 1, 1973. This fund was established to facilitate administrative and financial operations necessary to maintain, improve, repair and operate Philadelphia International Airport (PHL, or the Airport) and Northeast Philadelphia Airport (PNE). The financial statements presented are for the Aviation Fund only, and are not intended to present fairly the financial position of the City of Philadelphia as a whole or the results of its operations and cash flows. The comprehensive annual financial report of the City of Philadelphia provides complete financial information as to the City and its component units.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time obligations are incurred.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and the proprietary fund financial statements to the extent that they do not conflict or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The City has elected not to follow subsequent private sector guidelines.

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 revenue of the Aviation Fund is charges for the use of the airport. Operating expenses for proprietary 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.

Recently Issued GASB Statements

Issued in June 2011, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflow and inflow of resources, and amends the net assets reporting requirements in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements. It incorporates deferred outflows and inflows of resources into the definitions of the required components of the residual measure and, by renaming that measure as net position, thereby replacing the term net assets. GASB 63 was implemented in FY 2013, but it did not have a material impact on PHL's financial statements.

Issued in March 2012, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. It also limited the use of the term "deferred" in financial statement presentations. PHL elected early adoption and implemented GASB 65 in FY 2013, which resulted in bond issuance costs, previously amortized over the life of the debt, being recorded as an expense in the period incurred.

Issued in June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, establishes standards of financial reporting for separately issued financial reports and specifies the required approach for measuring a participating employer's pension liability. In most respects, the requirements for pension plan financial statements remain unchanged from the prior standards. The City implemented GASB 67 in FY 2014, which required the City to re-evaluate its status as a single or multiple employer defined benefit pension plan. It was determined that the City's pension plan meets the definition of a multi-employer plan.

Issued in June 2012, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will improve financial reporting of public employee pensions by state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. PHL has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Issued in November 2013, GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*, will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual basis financial statements of employers. The requirements of this statement are also effective for financial statements for periods beginning after June 15, 2014. PHL has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Cash and Investments

The Aviation Fund's cash and investments are held in segregated operating and capital accounts and by an outside fiscal agent. Sinking funds and reserves are maintained in segregated investment accounts to comply with reserve and other requirements of the bond covenants. No Aviation Fund accounts are commingled with other City funds.

Investments are recorded 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.

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. Management is not aware of any violations of statutory authority or contractual provisions for investments for the years ended June 30, 2014 and 2013.

Accounts Receivable

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, 2014 and 2013. Credit balance receivables have been included in unearned revenue in the statement of net assets. 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 identification. Unpaid accounts are referred to the City's Law Department if deemed uncollectible. Accounts are written off when recommended by the Law Department.

Inventories

Inventories consist of materials and supplies and are carried at amounts determined on a moving-average cost basis.

Restricted Assets

Restricted assets represent amounts that have been legally restricted by contracts or outside parties and are not available for payment of operating fund expenditures. The following represent restricted assets of the Aviation Fund:

- Funds available for construction, including grants due from other governments for capital purposes.
- Sinking funds and reserves reserved for debt service and construction, pursuant to revenue bond indentures.

- Passenger Facility Charges (PFCs) represent fees remitted by airlines based on passenger ticket sales for flights boarding at Philadelphia International Airport. The fees are reserved for funding certain Federal Aviation Administration (FAA)-approved capital projects and debt service payments. Collection of PFCs began in the fall of 1992. All unexpended PFC funds, including accumulated interest, are classified as restricted assets.

- Customer Facility Charges (CFCs) represent fees collected by rental car operators from customers renting motor vehicles at Philadelphia International Airport. CFCs are not to exceed $8 per rental day. The proceeds are to be used for the planning, development, financing, construction and operation of a consolidated rental car facility. Collections of CFCs began in May 2014. All unexpended CFC funds, including accumulated interest, are classified as restricted assets.

Capital Assets

Capital assets are defined by the GASB as including "land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations that have initial useful lives extending beyond a single reporting period."

Land

Land is always treated separately from any related capital asset associated with it (i.e.: a building on the land, a runway on the land, etc.). The cost of the land includes its acquisition price and the cost of preparing the land for its intended use. Included in preparation costs are commissions, professional fees, permanent landscaping, demolition of existing buildings, and other costs incurred in acquiring the land.

Intangibles

Intangible capital assets lack physical substance and can be expected in many cases to provide benefit indefinitely. An example of an intangible capital asset is software that was developed in-house.

Buildings and Building Improvements

All permanent structures are included in the category of buildings. Building improvements increase the value of the building and/or materially extends the useful life of the building. If the improvement does not meet these conditions, those costs are expensed in the period incurred. Repairs and maintenance are examples of items expensed because they help to retain value and do not increase the value of the asset.

Costs to be included in the capitalized cost of buildings include purchase price, expenses related to making the building ready for use, environmental compliance costs, professional fees, taxes paid at the time of purchase, and other costs required to place the asset into operation.

Constructed buildings include, but are not limited to, project costs for interest accrued during construction; cost of excavation, grading or filling; expenses incurred for the plan preparation; specification; blueprints; permits and professional fees; and costs of temporary buildings used during construction. Costs are expensed if a decision is made to not proceed with the construction of a building.

Building improvements may include conversion of unused space into useable space, original installation or upgrading of heating and cooling systems, wall or flooring coverings, windows and doors, closets, restrooms, phone and closed circuit television systems, security systems, wiring required for building equipment (that will remain in the building), renovations of outside building surfaces (including roofs, installation or replacement of plumbing and electrical wiring), permanently attached fixtures, machinery, building additions, and costs associated with the above improvements.

Building repairs and maintenance that do not increase the value of the building or extend its useful life are to be expensed. Examples of such costs may include plumbing or electrical repairs, maintenance such as pest control and cleaning, interior and exterior decorations, re-painting and repairing of interior and exterior portions of buildings, and any other repairs and maintenance costs that do not increase the value or extend its useful life of the asset.

Vehicles and Equipment

Vehicles and equipment are defined as movable tangible assets used in operations. It includes furniture and fixtures, vehicles, snow removal vehicles and equipment, firefighting vehicles and equipment, computer equipment, and other moveable equipment.

Infrastructure

Infrastructure assets are long-lived capital assets that are normally stationary and can be preserved for a significantly greater number of years than most capital assets. Infrastructure includes, but is not limited to: runways, taxiways, aprons, ramps, roads, sidewalks, signage, drainage systems, water and sewer systems, and lighting systems.

Construction in Progress

Construction in progress includes costs incurred to construct a capital asset before it is substantially ready to be placed in service. At the time of being placed in service, the asset will be reclassified into the appropriate asset category and be subject to depreciation.

Depreciation Guidelines

The following guidelines were implemented in the Aviation Fund's FY 2014 financial statements.

The capital assets that are not depreciated because they have indefinite useful lives are land, works of art, historical treasures, and intangibles.

If a capital asset has a determinable and significant salvage value, that value is not included in the depreciable value to be depreciated over the useful life of the asset. However, the proceeds from sales of capital assets that are expected to be immaterial are not deducted from the depreciable value of the related assets.

All depreciable capital assets are expensed using the straight-line method over the following useful lives of the assets and if these thresholds are met.

Asset Category	Life of Asset	Threshold
Land	Not Depreciated	None
Intangibles	Not Depreciated	None
Buildings	20 - 50 Years	$100,000
Building Improvements	10 - 25 Years	$100,000
Equipment	5 - 15 Years	$10,000
Vehicles	5 - 10 Years	$10,000
Infrastructure	20 - 50 Years	$100,000

It is the policy of PHL that a half year of depreciation is recorded in the year that the asset is acquired or placed in service.

Unearned Revenue

Unearned revenue relates primarily to excess billings to signatory airlines and advance payments received from air carriers. Such deferrals are ultimately included in income when earned, usually during the following fiscal year.

<u>Revenues</u>
Operating revenues consist of the following:

- Airline revenue – airline revenues are those paid by PHL's signatory carriers and include rents, landing fees, and per passenger fees.

- Non-airline revenue – non-airline revenues are all other operating revenues that do not qualify as airline revenue. These consist of concession fees, other rents, utilities and other operating revenue.

Non-operating revenues consist primarily of the following:

- Grants from other governments for non-capital purposes.

- Interest income.

Capital contributions consist primarily of the following:

- Grants from other governments for capital purposes.

- PFCs – revenue from PFCs is reserved for the funding of certain capital expenditures and debt service payments, as approved by the FAA.

- CFCs – revenue from CFCs is reserved for the funding of certain capital expenditures and will be used to plan, design, and construct a facility to be used by vehicle rental companies on Airport property.

<u>Operating Expenses</u>
Operating expenses consist primarily of personnel and administrative services, purchase of goods and services and depreciation and amortization expense.

<u>Bonds and Related Premiums, Discounts, Issuance Costs and Loss on Refunding</u>
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 applicable premium or discount. Bond issuance costs are expensed as incurred. The loss on refunding of bonds is amortized on the straight-line method over the lesser of the life of the old debt or the new debt issued.

Compensated Absences

It is the City's policy to allow employees to accumulate earned but unused vacation benefits. Vacation pay is accrued as earned. Sick leave balances are not accrued in the financial statements because sick leave rights are non-vesting.

Claims and Judgments

Pending claims and judgments are recorded as expenses when the City Solicitor has deemed that a probable loss to the City has occurred.

Management's 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 the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications of a General Nature

Certain prior period amounts have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported changes in net position.

2. DEPOSITS AND INVESTMENTS

For the fiscal years ended June 30, 2014 and 2013, cash and cash equivalents, and investments (deposits) are included in the financial statements in current and restricted cash and cash equivalents, and investments (deposits), in sinking funds and reserves held by fiscal agents, and in cash held by fiscal agent.

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. All of the collateralized securities were held in the City's name.

Investments

The City has established a comprehensive investment policy to minimize custodial credit risk for its investments. In so doing, the City has selected custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents to the City's custodian is required for all investments.

As of June 30, 2014 the fair value of the Aviation Fund's investments consisted of the following:

	Fair Value	% of Total
U.S. Government Securities	$ 170,676,135	37.75%
Commercial Paper	83,069,101	18.37%
U.S. Government Agency Securities	69,170,666	15.30%
Foreign Corporate Debt	66,857,987	14.79%
Short-Term Investment Pools	38,004,648	8.41%
Corporate Bonds	24,337,905	5.38%
	$ 452,116,442	100.0%

As of June 30, 2013 the fair value of the Aviation Fund's investments consisted of the following:

	Fair Value	% of Total
U.S. Government Securities	$ 184,865,482	39.59%
U.S. Government Agency Securities	104,628,911	22.40%
Commercial Paper	63,085,384	13.51%
Short-Term Investment Pools	48,052,520	10.29%
Corporate Bonds	44,697,396	9.57%
Foreign Corporate Debt	21,675,503	4.64%
	$ 467,005,196	100.0%

Interest Rate Risk: The City's investment portfolio is managed to accomplish preservation of principal, maintenance of liquidity, and to maximize the return on the investments. To limit its exposure to fair value losses from rising interest rates, the City's investment policy limits investments to maturities of no longer than two years, except in Sinking Fund Reserve Portfolios.

As of June 30, 2014 the maturities of investments were as follows:

	Less Than 1 Year	**1 - 3 Years**
U.S. Government Securities	$ 62,648,093	$ 108,028,042
U.S. Government Agency Securities	35,360,704	33,809,962
Commercial Paper	83,069,101	-
Short-Term Investment Pools	38,004,648	-
Corporate Bonds	13,616,554	10,721,351
Foreign Corporate Debt	42,249,716	24,608,271
	$ 274,948,816	$ 177,167,626

As of June 30, 2013 the maturities of investments were as follows:

	Less Than 1 Year	1 - 3 Years
U.S. Government Securities	$ 113,919,452	$ 70,946,031
U.S. Government Agency Securities	39,290,854	65,338,057
Commercial Paper	63,085,384	-
Short-Term Investment Pools	48,052,520	-
Corporate Bonds	23,270,794	21,426,602
Foreign Corporate Debt	2,916,010	18,759,493
	$ 290,535,014	$ 176,470,183

Credit Risk: For the City as a whole, the policy to limit credit risk is to invest in US Government securities (12.86%) or US Government Agency obligations (4.80%). The US Government Agency obligations must be rated AAA by Standard & Poor's Corp. (S&P) or Aaa by Moody's Investor Services (Moody's). All US Government Securities meet the criteria. The City's investment in Commercial Paper (4.21%) must be rated A1 by S&P and/or M1G1 by Moody's and the senior long-term debt of the issuer must not be rated lower than A by S&P and/or Moody's. Commercial Paper is also limited to 25% of the portfolio. All commercial paper investments meet the criteria. Of the corporate bonds held by the City, 9.94% had an S&P rating of AAA to AA. Cash accounts are swept nightly and idle cash invested in money market funds (short-term investment pools). Short-term investment pools are rated AAA by S&P and Aaa by Moody's. The City limits its foreign currency risk by investing in certificates of deposit and bankers acceptances issued or endorsed by non-domestic banks that are denominated in US dollars providing that the banking institution has assets of not less than $100 million and has a Thompson's Bank Watch Service "Peer Group Rating" not lower than II. The Aviation Fund currently has investments in Foreign Corporate Debt with Moody's ratings of A1 or better.

3. CASH HELD BY FISCAL AGENT

The amounts held by the fiscal agent consist of cash and investments related to the net proceeds of Philadelphia Authority for Industrial Development's (PAID) Airport Revenue Bonds Series 1998A and 2001A. In accordance with GASB Interpretation #2, these bonds are considered by PAID to be conduit debt. Therefore, no asset related to the bond proceeds or liability related to the bonds is shown on PAID's financial statements.

Instead, the proceeds are held by a fiscal agent and disbursed at the City's direction to pay for Airport related capital improvements. Both the assets and liabilities related to the PAID bonds are included in the financial statements of the Aviation Fund.

4. CAPITAL ASSET ACTIVITY

The following tables present the changes in capital assets for FY 2014 and FY 2013.

	Balance FYE 06/30/2013	Additions	Deletions	Balance FYE 06/30/2014
Non-depreciable assets				
Land and intangibles	$ 146,239,575	$ 756,808	$ -	$ 146,996,383
Construction-in-progress	323,394,406	106,812,080	(29,147,469)	401,059,017
Total non-depreciable assets	469,633,981	107,568,888	(29,147,469)	548,055,400
Depreciable assets				
Buildings & improvements	1,540,677,082	4,454,562		1,545,131,644
Infrastructure	919,138,588	9,192,446		928,331,034
Other improvements	257,188,001	14,743,653		271,931,654
Equipment	53,679,240	302,952	(840,555)	53,141,637
Total depreciable assets	2,770,682,911	28,693,613	(840,555)	2,798,535,969
Accumulated depreciation				
Buildings & improvements	(701,810,609)	(47,945,566)		(749,756,175)
Infrastructure	(560,910,143)	(34,774,299)		(595,684,442)
Other improvements	(135,896,539)	(13,694,084)		(149,590,623)
Equipment	(36,672,466)	(3,293,988)	764,635	(39,201,819)
Total accumulated depreciation	(1,435,289,757)	(99,707,937)	764,635	(1,534,233,059)
Net depreciable assets	1,335,393,154	(71,014,324)	(75,920)	1,264,302,910
Total capital assets	$ 1,805,027,135	$ 36,554,564	$ (29,223,389)	$ 1,812,358,310

	Balance FYE 06/30/2012	Additions	Deletions	Balance FYE 06/30/2013
Non-depreciable assets				
Land and intangibles	$ 120,292,991	$ 25,946,584	$ -	$ 146,239,575
Construction-in-progress	266,842,805	134,175,055	(77,623,454)	323,394,406
Total non-depreciable assets	387,135,796	160,121,639	(77,623,454)	469,633,981
Depreciable assets				
Buildings & improvements	1,536,406,313	4,270,769		1,540,677,082
Infrastructure	886,621,573	32,517,015		919,138,588
Other improvements	244,462,911	12,725,090		257,188,001
Equipment	51,564,324	2,366,238	(251,322)	53,679,240
Total depreciable assets	2,719,055,121	51,879,112	(251,322)	2,770,682,911
Accumulated depreciation				
Buildings & improvements	(653,976,284)	(47,834,325)		(701,810,609)
Infrastructure	(526,852,815)	(34,057,328)		(560,910,143)
Other improvements	(123,032,017)	(12,864,522)		(135,896,539)
Equipment	(33,793,180)	(3,117,215)	237,929	(36,672,466)
Total accumulated depreciation	(1,337,654,296)	(97,873,390)	237,929	(1,435,289,757)
Net depreciable assets	1,381,400,825	(45,994,278)	(13,393)	1,335,393,154
Total capital assets	$ 1,768,536,621	$ 114,127,361	$ (77,636,847)	$ 1,805,027,135

A portion of bond interest expense net of related interest income on unexpended funds is capitalized during the construction phase of the projects funded by the bonds. Net interest capitalized to construction in progress was $23,235,233 and $26,159,488 for the fiscal years ending June 30, 2014 and 2013, respectively. For the fiscal year ending June 30, 2014, this represents $23,824,149 in interest expense net of $588,916 of related interest income. For the fiscal year ending June 30, 2013, this represents $26,741,697 in interest expense net of $582,209 of related interest income.

Depreciation and amortization expense was $99,707,937 and $97,873,389 for the fiscal years ending June 30, 2014 and 2013, respectively.

5. UNEARNED REVENUE

Unearned revenue was $2,165,850 and $15,208,092 for the fiscal years ending June 30, 2014 and 2013, respectively and includes revenues received in advance, excess billing to the scheduled airlines, and credit balance receivables.

6. ARBITRAGE REBATE

The Aviation Fund has several series of 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. The arbitrage rebate liability was $298,945 and $284,944 as of June 30, 2014 and 2013, respectively, and is included in other long-term liabilities.

7. DERIVATIVE INSTRUMENTS AND INTEREST RATE SWAP

Beginning in fiscal 2010, the City adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The fair value balance, notional amount, objective and terms of the derivative instrument outstanding for the Aviation Fund as of June 30, 2014 and 2013 are as follows:

Type	Cash Flow Hedge - pay fixed interest rate swap
Change in Fair Value of Deferred	
Outflow at June 30, 2014	$3,843,430
Outflow at June 30, 2013	$9,369,996
Fair value at June 30, 2014	($18,972,574)
Fair value at June 30, 2013	($22,816,004)
Objective	Hedge changes in cash flow on the 2005 Series C bonds
Notional amount at June 30, 2014	$140,200,000
Notional amount at June 30, 2013	$148,400,000
Effective date	06/15/2005
Maturity date	06/15/2025
Terms	Airport pays multiple fixed swap rates; receives SIFMA Municipal Swap Index
Counterparty credit rating	
at June 30, 2014	Aa3/A+
at June 30, 2013	Aa3/A+

Objective: In April 2002, the City entered into a swaption that provided the City's Aviation Division 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, N.A. 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, 2014 and 2013, the swap had a notional amount of $140.2 million and $148.4 million, respectively, and the associated variable-rate bonds had a $140.2 million and $148.4 million principal amount, respectively. 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, 2014 and 2013, the swap had a negative fair value of ($19.0) million and ($22.8) million, respectively. This means that if the swap terminated today, the Airport would have to pay this amount to JP Morgan Chase.

Risk: As of June 30, 2014 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, 2014 and 2013, the rates were:

Interest Rate Swap	Terms	June 30, 2014	June 30, 2013
Fixed payment to JPMorgan Chase	Fixed	4.72645%	4.98577%
Variable rate from JPMorgan Chase	SIFMA	-0.06000%	-0.06000%
Net interest rate swap payments		4.66645%	4.92577%
Variable rate bond coupon payments	Weekly resets	0.05000%	0.07000%
Synthetic interest rate on bonds		4.71645%	4.99577%

Swap payments and associated debt: As of June 30, 2014, 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 Years Ending June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps Net	Total Interest
2015	$ 9,000,000	$ 70,100	$ 6,542,356	$ 6,612,456
2016	9,800,000	65,600	5,779,656	5,845,256
2017	10,700,000	60,700	4,921,020	4,981,720
2018	11,400,000	55,350	4,262,830	4,318,180
2019	12,200,000	49,650	3,512,436	3,562,086
2020-2024	71,300,000	149,450	8,072,684	8,222,134
2025	15,800,000	7,900	251,810	259,710
	$ 140,200,000	$ 458,750	$ 33,342,792	$ 33,801,542

8. COMMERCIAL PAPER NOTES

The Aviation Fund established a $350 million commercial paper (CP) program in January 2013 to provide funding for capital projects approved by Philadelphia International Airport's signatory airlines. CP is a short-term financing tool with a maximum maturity of 270 days. PHL's CP Program enables capital projects to be financed on an as-needed basis, which lowers the Airport's cost of borrowing and limits negative arbitrage during project construction periods. CP Notes will continue to be "rolled over" until long-term bonds are issued to refund the outstanding commercial paper. There was $39.7 million of CP notes outstanding at June 30, 2014. For FY 2014, CP interest expense charged to the change in net position on PHL's Statement of Net Position was $79,478.

As of June 30, 2014, the total outstanding balance of CP notes was $39,700,000.

Balance as of July 1, 2013	$ 39,600,000
Commercial Paper Notes Issued	132,000,000
Commercial Paper Notes Refunded	(131,900,000)
Balance as of June 30, 2014	$ 39,700,000

9. BONDS PAYABLE

General obligation (G.O.) bonds, payable out of Aviation Fund revenues, consist of bonds declared by statute to be self-sustaining from airport revenues. There are no G.O. bonds outstanding as of June 30, 2014.

In July 1998, Airport Revenue Bonds, Series 1998B in the amount of $443.7 million were issued. The proceeds of Series 1998B were used to prepay the City's fixed rental obligation under a lease with PAID ("the PAID Lease"). Under this lease, the City acquired a leasehold interest and will occupy, operate and manage certain new terminals and related improvements ("the US Airways Project Facility") constructed with funds provided by the Series 1998A PAID Airport Revenue Bonds. In June 2008, the City purchased a letter of credit from Wachovia Bank, N.A. to replace a surety policy purchased from FGIC. When FGIC was downgraded below the 'AA' category the policy no longer met the rating requirements of the Amended and Restated General Airport Revenue Bond Ordinance (the Ordinance), approved June 16, 1995. The letter of credit meets the Ordinance's rating requirements. In Fiscal 2011, the Series 1998B bonds were partially refunded by the Airport Revenue Refunding Bonds Series 2010D, leaving a balance of $69.5 million. In Fiscal 2012, substantially all of the remaining 1998B bonds were refunded, leaving a balance of $5,000.

In June 2005, Airport Revenue Refunding Bonds, Series 2005C in the amount of $189.5 million were issued. The proceeds of Series 2005C were used to refund $183.9 million of the 1995A Series Airport Revenue Bonds, maturing from 2006 through 2025, and to pay issuance and insurance costs on the bonds. The cash flow required by the new bonds was the same as the cash flow required by the refunded bonds at the time of the sale. JPMorgan entered into a swaption agreement with the Airport on the 1995A bonds in 2002, which agreement was exercised June 15, 2005. In December 2008, the outstanding balance of $178.6 million of Airport Revenue Refunding Bonds, Series 2005C was remarketed under an irrevocable direct pay letter of credit ("LOC") from TD Bank ("the Bank"). The LOC replaces a bond insurance policy from MBIA Insurance Corporation and a liquidity facility for the 2005C bonds provided by JP Morgan Chase Bank, N.A., pursuant to a standby bond purchase agreement, issued simultaneously with the issuance of the 2005C bonds in June 2005, and the surety policy for the sinking fund reserve account for the 2005C bonds. The LOC constitutes both a credit facility and liquidity facility under the Ordinance and the Variable Rate Securities Agreement, and the TD Bank will be the credit provider and liquidity provider under the Ordinance and the Variable Rate Securities Agreement for the 2005C bonds. The bonds will have a weekly interest rate and maturity date in 2025.

In August 2005, Airport Revenue Bonds, Series 2005A sub-series (1), (2) and (3) in the amounts of $59.8 million, $22.6 million and $42.5 million, respectively, were issued. The proceeds of Series 2005A were used to finance a portion of the cost of Airport capital projects. Sub-series (1) are serial bonds and sub-series (2) and (3) are term bonds. The Series 2005A bonds had MBIA Insurance Corporation surety policies for their sinking fund reserve requirements. Because MBIA was downgraded below the 'AA' category, the surety policies no longer met the requirements of the Ordinance. During FY 2009, the Aviation Fund replaced the surety policy by funding the sinking fund reserve required under the Ordinance for the 2005A bonds.

In August 2007, Airport Revenue Bonds, Series 2007A, in the amount of $172.5 million were issued. The proceeds from Series 2007A were used to finance a portion of the 2007 Project (infrastructure improvements and design of terminal building enhancements); to finance capitalized interest during the construction period; and to pay the costs of issuing and insuring the bonds with municipal bond insurance and a surety policy.

In August 2007, Airport Revenue Bonds, Refunding Series 2007B, in the amount of $82.9 million were issued. The proceeds of Series 2007B were used to refund Revenue Bonds, Series 1997B and the costs of issuing and insuring the bonds with municipal bond insurance. The refunding structure of the 2007B bonds realized a net present value savings of approximately $2.6 million or 3.22% of the principal amount of the refunded bonds.

In April 2009, Airport Revenue Bonds, Refunding Series 2009A, sub series (1) through (3) in the amount of $45.7 million were issued. Serial bonds were issued in the amount of $25.7 million with interest rates ranging from 1.5% to 5.0% maturing in 2023. Term bonds were issued in the amount of $3.9 million and $16.1 million with interest rates ranging from 5.0% to 5.375% maturing in 2024 and 2029 respectively. The gain/loss on the bonds cannot be calculated in the usual way because the refunded bonds (Series 2005B) were variable rate bonds that were subject to Alternative Minimum Tax (AMT). However the 2009A bonds were issued on a fixed rate basis and are not subject to AMT. The proceeds of Series 2009A along with other monies of the Aviation Fund were used to currently refund Airport Revenue Bonds Series 2005B, fund a deposit to the parity sinking fund reserve account in respect of the bonds, and pay the costs of issuance of the bonds. The Series 2009A bonds were issued under a financial guaranty insurance policy issued by Assured Guaranty Corp.

In November 2010, the City issued Airport Revenue Bonds, Series 2010 in the amount of $624.7 million:

- Airport Revenue Bonds, Series 2010A (non-AMT) were issued as serial and term bonds in the amount of $273.1 million. Insured serial bonds were issued in the amount of $16.5 million with interest rates ranging from 3% to 4.5% and a maturity in 2035 and uninsured serial bonds in the amount of $113.0 million with a maturity of 2030. Insured term bonds were issued in the amount of $25 million and $48 million with an interest rate of 5% and maturities in 2035 and 2040. Uninsured term bonds were issued in the amounts of $37.8 million and $32.8 million with an interest rate of 5% and maturities in 2035 and 2040. The proceeds of Series 2010A were used to finance certain capital improvements to the airport system; fund the deposits into the sinking funds; finance capitalized interest; and pay costs of issuance relating to the bonds.

- Airport Revenue Refunding Bonds, Series 2010B (non-AMT) were issued as uninsured serial bonds in the amount of $24.4 million with interest ranging from 2.0% to 5% and maturing in 2015. The proceeds of these bonds were used to refund the City's Airport Revenue Bonds, Series 1997A; fund the deposit into the sinking fund reserve; and pay costs of issuance relating to the bonds.

- Airport Revenue Refunding Bonds, Series 2010C were issued as uninsured serial bonds in the amount of $54.7 million with interest ranging from 2.0% to 5% and maturing in 2018. The proceeds of these bonds were used to partially refund the City's Airport Revenue Bonds, Series 1998A; fund the deposit into the sinking fund reserve; and pay costs of issuance relating to the bonds.

- Airport Revenue Refunding Bonds, Series 2010D were issued in the amount of $272.5 million. Insured serial bonds were issued in the amount of $1.9 million with interest ranging from 4.0% to 4.5% and maturing in 2024. Uninsured serial bonds were issued in the amount of $270.7 million with interest ranging from 2.0% to 5.25% and maturing in 2028. The proceeds of these bonds were used to partially refund the City's Airport Revenue Bonds, Series 1998B; fund the deposit into the sinking fund reserve; and pay costs of issuance relating to the bonds. Any prepayment of the 1998B bond shall be in an amount that is sufficient and used to pay a like amount of the PAID Airport Revenue Series 1998A also known as the International Terminal Bonds.

In December 2011, the City issued Airport Revenue Bond Series 2011 in the amount of $233.8 million. The Series 2011A bonds (AMT) were issued as serial bonds in the amount of $199.0 million with interest rates ranging from 2% to 5% and maturing in 2028. The Series 2011B bonds were issued as serial bonds in the amount of $34.8 million, with interest rates ranging from 2% to 5% and maturing in 2031. The proceeds of these bonds were used to: (i) refund a portion of the International Terminal Bonds; (ii) refund all of the City's outstanding Airport Revenue Bonds, Series 2001B; and (iii) pay the issuance costs of the bonds. The proceeds from the 2011A bonds were used to refund the entire principal amount of $149.3 million for the Airport Revenue Bonds, Series 2001A. In addition, the 2011B bonds were used to refund a portion of the Airport Revenue Bond Series 1998B (outstanding aggregate principal amount of $57.1 million).

The amount of debt service payable for revenue bonds to maturity is as follows:

Fiscal Years Ending June 30	Principal	Interest	Total Debt Service
2015	62,350,000	62,058,089	124,408,089
2016	60,215,000	58,669,955	118,884,955
2017	63,530,000	55,424,277	118,954,277
2018	65,920,000	52,186,078	118,106,078
2019	59,965,000	48,721,192	108,686,192
2020-2024	348,190,000	196,162,508	544,352,508
2025-2029	317,565,000	111,221,503	428,786,503
2030-2034	143,780,000	55,210,613	198,990,613
2035-2039	116,975,000	19,996,188	136,971,188
2040	17,775,000	888,750	18,663,750
Total	$ 1,256,265,000	$ 660,539,153	$ 1,916,804,153

The early extinguishment of debt can result in a loss on refunding, representing the difference between the reacquisition price, plus or minus unamortized premium or discount, and the amount of debt extinguished. The resulting loss is amortized annually over the life of the refunded bonds and reflected in the Deferred Outflows section on the Statement of Financial Position.

Total interest costs for FY 2014 were nearly $64.8 million, of which $23.8 million was capitalized and $41.0 million was recorded as non-operating expense. Total interest costs for FY 2013 were $66.9 million, of which $26.7 million was capitalized and $40.2 million was recorded as non-operating expense.

Details of the various revenue bonds included in the financial statements are reflected on the following page. Airport Revenue Bonds Series 1998B reflect the PAID outstanding balances, which are treated as conduit debt under GASB Interpretation 2. Payments on the conduit debt are guaranteed by General Airport Revenue Bonds Series 1998B.

9. BONDS PAYABLE

Type of Debt	Description		Authorized and Issued	Included in Current Liabilities	Portion Due After June 30, 2015	Total Outstanding Bonded Debt	Final Maturity	Interest Percentage Rate
Airport Revenue Bonds - Series 1998B	Loan # 706	$	443,700,000	-	5,000	5,000	2028	4.25 - 5.38%
Airport Revenue Bonds - Series 2005A	Loan # 710	$	124,985,000	3,130,000	105,945,000	109,075,000	2035	4.50 - 5.00%
Airport Revenue Bonds - Series 2005C	Loan # 711	$	189,500,000	9,000,000	131,200,000	140,200,000	2025	Variable Rate
Airport Revenue Bonds - Series 2007A	Loan # 712	$	172,470,000	3,835,000	155,035,000	158,870,000	2037	5.00 - 5.00%
Airport Revenue Bonds - Series 2007B	Loan # 713	$	82,915,000	3,965,000	55,325,000	59,290,000	2027	4.50 - 5.00%
Airport Revenue Bonds - Series 2009A	Loan # 714	$	45,715,000	1,865,000	36,925,000	38,790,000	2029	1.50 - 5.00%
Airport Revenue Bonds - Series 2010A	Loan # 715	$	273,065,000	5,315,000	262,665,000	267,980,000	2040	2.00 - 5.25%
Airport Revenue Bonds - Series 2010B	Loan # 716	$	24,395,000	5,305,000	-	5,305,000	2015	2.00 - 5.00%
Airport Revenue Bonds - Series 2010C	Loan # 717	$	54,730,000	7,775,000	25,720,000	33,495,000	2018	2.00 - 5.00%
Airport Revenue Bonds - Series 2010D	Loan # 718	$	272,475,000	14,545,000	217,055,000	231,600,000	2028	2.00 - 5.25%
Airport Revenue Bonds - Series 2011A	Loan # 719	$	199,040,000	6,315,000	174,870,000	181,185,000	2028	2.00 - 5.00%
Airport Revenue Bonds - Series 2011B	Loan # 720	$	34,790,000	1,300,000	29,170,000	30,470,000	2031	2.00 - 5.00%
				$ 62,350,000	$ 1,193,915,000	$ 1,256,265,000		

Airport General Obligation Bonds authorized and unissued at June 30, 2014	$ 62,500,000

CHANGES IN LONG-TERM DEBT:

	Beginning Balance	Additions (Deletions)	Retirements/ Repayments	Ending Balance	Due Within One Year
Revenue bonds	$ 1,315,455,000	$ -	$ (59,190,000)	$ 1,256,265,000	$ 62,350,000
Less unamortized premium/ discount and loss on refunding	12,771,206	-	(3,138,714)	9,632,492	
Total bonds	1,328,226,206	-	(62,328,714)	1,265,897,492	62,350,000
Workers compensation claims	3,574,723	2,030,277		5,605,000	
Net pension obligation	14,272,888	8,805,773		23,078,661	
Termination compensation payable	7,591,342	136,029		7,727,371	914,272
Derivative instrument liability	22,816,004	(3,843,430)		18,972,574	
Legal liability	408,884	791,306		1,200,190	
Arbitrage	284,944	14,001		298,945	
	$ 1,377,174,991	$ 7,933,956	$ (62,328,714)	$ 1,322,780,233	$ 63,264,272

10. FUND BALANCES

The following is a description of the restrictions for all net asset categories of the Aviation Fund:

- *Net Investment in Capital Assets* reflects the investment in fixed assets net of accumulated depreciation and reduced by outstanding debt related to expended bond proceeds.

- *Restricted for Capital Projects* reflects the unexpended funds from bond and CP proceeds, CFCs and PFCs, which are reserved for construction of capital projects, offset by outstanding debt related to unexpended bond proceeds.

- *Restricted for Debt Service* reflects the unexpended funds from bond proceeds and PFCs, which are reserved for repayment of debt.

- *Unrestricted* reflects net assets available for current and future operations.

11. DEFERRED COMPENSATION PLAN

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 Aviation Fund does not include the assets or activity of the plan in its financial statements.

12. OPERATING LEASES

The Aviation Fund as a Lessor

The City and the participating airlines executed a new four year Airport-Airline Use and Lease Agreement (Airline Agreement) effective July 1, 2007. The Airline Agreement employs a residual rate-making methodology, wherein airline rates and charges are calculated to fund the annual net expense of PHL's airfield and terminal facilities after taking into account non-airline revenues generated by the Airport. The rate-making provisions of the new agreement also provide for the creation and funding of Airport budgetary reserves to enhance PHL's financial capacity and flexibility. In June 2011, the airlines agreed to extend the Airline Agreement for two years through June 30, 2013 while a new agreement was being negotiated. In January 2013, the City of Philadelphia and US Airways announced a successive two-year Airline Agreement extension through June 30, 2015.

The Aviation Fund's other operating leases consist primarily of leases of airport facilities for retail or other aviation related matters. Most assets constructed by lessees revert to the City at the end of the lease term as per the lease. Those assets are recorded at fair value, as determined by an appraisal of the property.

The Aviation Fund's most significant non-airline lease is with MarketPlace Philadelphia, LP for the development and management of the food and retail program throughout Philadelphia International Airport. The award-winning food and retail program consists of approximately 170 shops, restaurants, retail carts and passenger services throughout Terminals A-West through F. The lease agreement provides for MarketPlace Philadelphia, LP to pay rentals to the City in the form of minimum annual guarantees and profit sharing.

Rental income from operating leases for FY 2014 was as follows:

Minimum rentals	$ 28,436,705
Additional rentals	163,775,866
Total rental income	$ 192,212,571

Rental income from operating leases for FY 2013 was as follows:

Minimum rentals	$ 28,758,286
Additional rentals	153,315,887
Total rental income	$ 182,074,173

As of the end of FY 2014, future minimum rentals receivable under non-cancelable operating leases are as follows:

Fiscal Years Ending June 30	
2015	$ 13,993,555
2016	7,096,656
2017	6,528,165
2018	6,551,668
2019	6,559,458
2020-2024	22,613,600
2025-2029	15,563,207
2030-2034	9,102,653
2035-2039	5,735,670
Total	$ 93,744,632

The separate cost and carrying amount of property held for leasing is not available.

The Aviation Fund as a Lessee

The Aviation Fund leases office space, land, and both office and operations equipment on a short-term and long-term basis. Rental expense for operating leases for FY 2014 was as follows:

Minimum rentals	$	704,320
Additional rentals		15,720,801
Total rental expense	$	16,425,121

Rental expense for operating leases for FY 2013 was as follows:

Minimum rentals	$	982,987
Additional rentals		8,926,809
Total rental expense	$	9,909,796

As of year-end, future minimum rental commitments for operating leases having initial or remaining non-cancelable lease terms of more than one year are as follows:

Fiscal Years Ending June 30		
2015	$	663,230
2016		624,022
2017		634,892
2018		171,860
Total	$	2,094,004

14. CONCENTRATION OF CREDIT RISK

The new American Airlines, resulting from the merger of American Airlines and US Airways, is the principal airline serving Philadelphia International Airport. The airline, together with its American Connection and US Airways Express affiliates accounted for approximately 76.9% and 75.9% of passengers enplaned at the airport in fiscal years 2014 and 2013, respectively. Operating revenues from US Airways and its affiliates totaled approximately $151.4 million and $136.1 million in fiscal years 2014 and 2013, respectively, which represented approximately 51.5% and 50.7% of total Aviation Fund operating revenues in fiscal years 2014 and 2013, respectively.

15. PENSION PLAN

The Aviation Fund contributes to the Municipal Pension Plan (City Plan) of the City of Philadelphia. Information for the City Plan as a whole is available in the Comprehensive Annual Financial Report (CAFR) of the City of Philadelphia for the year ended June 30, 2014.

Effective with fiscal year 2014, the City implemented GASB Statement No. 67, *Financial Reporting for Pension Plans.* The new GASB required the City to re-evaluate its status as a single, multi, or employer defined benefit pension plan. The new statement defines a single employer as the primary government and its component units. However, the City's pension plan includes an entity, the Philadelphia Housing Development Corporation (PHDC), which is not a component unit. Therefore, beginning with fiscal year 2014, the City's pension plan meets the definition of a multi-employer plan. The City also maintains one single-employer defined pension plan for the Philadelphia Gas Works (PGW)**.**

In June 2012, the GASB issued Statement No. 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50, Pension Disclosures. The statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach for measuring a participating employer's pension liability. In most respects, the requirements for pension plan financial statements remain unchanged from the prior standards; however, the statements do require additional note disclosures including new schedules of required supplementary information.

Required Supplementary Information calculated in accordance with GASB Statement No. 25 is presented in audited financial statements of the respective pension plans. Copies of these financial statements may be obtained by contacting the Director of Finance of the City of Philadelphia.

The Pension Plans' financial statements 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.

Plan Administration

The Philadelphia Board of Pensions and Retirement administers the City of Philadelphia Public Employees Retirement System - a multiple employer defined benefit pension plan with a small but increasing defined contribution component, which provides pensions for all officers and employees of 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.

Plan Membership

At July 1, 2013, the date of the most recent actuarial valuation, pension plan membership for the City as a whole was as follows:

Active members	26,788
Retirees	21,696
Beneficiaries	8,614
Disabled	4,152
DROP members	2,427
Terminated Vested	1,281
Total City Members	64,958
Annual Salaries	$1,429,723,436
Average Salary per Active Member	$53,372
Annual Retirement Allowances	$676,634,789
Average Retirement Allowance	$19,634

Contributions

Per Title 22 of the Philadelphia Code, members contribute to the System at various rates based on bargaining unit, uniform status, and entry date into the System. As of July 1, 2013 uniform employees will be contributing either 5.00%, 5.50%, or 6.00% of pensionable earnings; non-uniform employees will be contributing either 1.93%, 2.03%, 2.55%, or 6.00% of pensionable earnings; and elected employees will be contributing either 8.16% or 9.60% of pensionable earnings.

Employers' 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 cost 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.

<u>Funding Policy</u>
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 charges in the actuarial liability are amortized in level-dollar payments 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 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 2014, the City and other employers' contributions of $533.2 million was less than the actuarially determined employer contribution (ADEC) OF $823.9 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 6-year presentation of employer contributions.

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 2014, the City and other employers' contributions of $553.2 million exceeded the Minimum Municipal Obligation of $523.4 million.

Benefits

The Public Employees Retirement System 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 may retire at either age 60 with up to 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(s) 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, 2013, the date of the most recent actuarial valuation, there was $1,096,608 in the PAF and the Board voted to make distributions of $0 during the fiscal year ended June 30, 2014.

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, 2014 is $216.9 million.

The Annual Pension Cost and related percentage contributions for the three most recent fiscal years for the City as a whole are as follows:

(Amounts in Millions of USD)

Fiscal Years Ending June 30	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
2012	$ 719.6	77.22%	$ 243.9
2013	$ 729.1	105.43%	$ 204.3
2014	$ 816.3	69.35%	$ 454.5

The actuarial valuation used to compute the current year's required contribution was performed as of July 1, 2013. Methods and assumptions used for that valuation include:

- the individual entry age actuarial cost method
- a ten-year smoothed market value method for valuing investments
- a level percentage closed method for amortizing the unfunded liability
- an annual investment rate of return of 7.85 percent
- projected annual salary increases based on new age based scale
- a payroll growth rate of 3.3 percent
- no post-retirement benefit increases

Administrative costs of the Plan are paid out of the Plan's assets.

Funding Status

The following schedule shows the funding status based on the latest actuary report for the City as a whole. The schedule of funding progress, which presents multiyear trend information about whether the actuarial value of plan assets is decreasing over time relative to the actuarial accrued liability for benefits, can be found in the Required Supplementary Information section immediately following the Notes to the Financial Statements.

(Amounts in Millions of USD)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b-a)/c
07/01/2011	$ 4,489.1	$ 9,487.5	$ 4,998.4	47.32%	$ 1,371.3	364.50%
07/01/2012	$ 4,486.8	$ 9,799.9	$ 5,313.1	45.78%	$ 1,372.2	387.20%
07/01/2013	$ 4,799.3	$ 10,126.2	$ 5,326.9	47.39%	$ 1,429.7	372.59%

Net Pension Obligation

The City and other employers' annual pension cost and net pension obligation (NPO) for the Municipal Pension Plan at fiscal year-ends 2014 and 2013 were as follows:

	(Amounts in Thousands of USD)	
	June 30, 2014	June 30, 2013
Annual Required Contribution (ARC)	$ 823,885	$ 738,010
Interest on Net Pension Obligation (NPO)	16,242	19,756
Adjustment to ARC	(23,784)	(28,660)
Annual Pension Cost	816,343	729,106
Contributions Made	(566,179)	(768,702)
Increase in NPO	250,164	(39,596)
NPO at Beginning of Year	204,302	243,898
NPO at End of Year	$ 454,466	$ 204,302
Interest Rate	7.95%	8.10%
15 Year Amortization Factor (EOY)	8.59%	8.51%

The Aviation Fund's net pension obligation was $23,078,661 and $14,272,888 at fiscal year-end June 30, 2014 and 2013, respectively.

Derivative Instruments

In 2010, the City of Philadelphia adopted GASB Statement No. 53 which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments such as swaps, options, futures and forwards are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities.

The City of Philadelphia Municipal Pension Fund (Pension Fund) enters into a variety of financial contracts which include options, futures, forwards and swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMO's); other forward contracts, and U.S. Treasury strips. The contracts are used primarily to enhance performance and reduce volatility of the portfolio. The Pension Fund is exposed to credit risk in the event of non-performance by counter-parties to financial instruments. The Pension Fund generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The Pension Fund is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by Board-approved guidelines, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of the Pension Fund's involvement in the various types and uses of derivative financial instruments and do not measure the Pension Fund's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the Pension Fund's derivative financial instruments at June 30, 2014:

List of Derivatives Aggregated by Investment Type

	Changes in Fair Value		Fair Value at June 30, 2014		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Investment Derivatives					
Forward Currency Contracts	Net appreciation / (depreciation) in investments	$ (1,981,432)	Accrued interest and other receivables	$ (238,578)	$ 150,909,330
Futures	Net appreciation / (depreciation) in investments	24,249	Accrued interest and other receivables	(3,524)	101
Grand Totals		$ (1,957,183)		$ (242,102)	$ 150,909,431

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Investment Policy Statement of the Pension Fund. The guidelines identify transaction-level and portfolio-level risk control procedures and documentation requirements. Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have credit ratings available from nationally recognized rating institutions such as Fitch, Moody's and S&P.

The details of other risks and financial instruments in which the Pension Fund is involved are described below:

Credit Risk: The Pension Fund is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Pension Fund's policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below AA as issued by Fitch Ratings and Standard & Poor's or Aa as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The City has never failed to access collateral when required.

It is the Pension Fund's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

<u>Swap Agreements</u> provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 2014, the Pension Fund entered into interest rate swaps. Under the receive-fixed interest rate type swap arrangements, the Pension Fund receives the fixed interest rate on certain equity or debt securities or indexes in exchange for a fixed charge. There were not any receive-fixed interest rate swaps received as of June 30, 2014. On its pay-variable, received-fixed interest rate swap, as LIBOR increases, the Pension 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 Pension Fund's net payment on the swap increases.

<u>Futures Contracts</u> 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 Pension 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 Pension Fund has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed.

Forward Contracts: The Pension 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.

Termination Risk: The Pension 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 Pension Fund is exposed to termination risk on its receive-fixed interest rate swap. The Pension 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 Pension Fund is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to 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 Pension Fund will be re-exposed to the risks being hedged by the hedging derivative instrument.

<u>Summary of Significant Accounting Policies</u>
Financial statements of the Pension 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 Pension Fund. Investments are valued as described in Footnote 2.

16. ACCUMULATED UNPAID SICK LEAVE

The Aviation Fund follows City policies regarding the accumulation of sick leave. City employees may accumulate unused sick leave to predetermined balances. 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.

17. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The following information is provided for the City as a whole because discrete information is not available for the Aviation Fund. Please see the CAFR of the City of Philadelphia for required supplemental information.

Plan Description: The City of Philadelphia self-administers a single-employer, defined benefit plan and provides health care for five years subsequent to separation for eligible retirees. Certain union represented employees may defer their coverage until a later date but the amount that the City pays for their health care is limited to the amount that the City would have paid at the date of their retirement. The City also provides lifetime insurance coverage for all eligible retirees. Firefighters are entitled to $7,500 coverage and all other employees receive $6,000 in coverage. The plan does not issue stand-alone financial statements, and the accounting for the plan is reported within the financial statements of the City of Philadelphia.

Funding Policy: The City funds its retiree benefits on a pay-as-you-go basis. To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by union contracts and is self-insured for non-union employees. For fiscal years 2014 and 2013, the City paid $67.1 million and $56.1 million, respectively, for retiree healthcare.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC) of the employer, 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 costs 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 last two fiscal years, the amount actually contributed to the plan and changes in the net OPEB obligation:

	(Amounts in Thousands of USD)	
	June 30, 2014	June 30, 2013
Annual required contribution	$ 128,619	$ 113,934
Interest on net OPEB obligation	7,068	4,633
Adjustment to ARC	(6,369)	(4,175)
Annual OPEB cost	129,318	114,392
Payments made	(67,100)	(57,096)
Increase in net OPEB obligation	62,218	57,296
Net OPEB obligation – beginning of year	166,315	109,019
Net OPEB obligation – end of year	$ 228,533	$ 166,315

The City of Philadelphia's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2014 was as follows:

(Amounts in Thousands of USD)

Fiscal Years Ending June 30	Annual OPEB Cost	Percentage of Annual OPEB Contributed	Net OPEB Obligation
2012	$ 105,369	72%	$ 109,019
2013	$ 114,392	93%	$ 166,314
2014	$ 129,318	52%	$ 228,533

Funded Status and Funding Progress: As of July 1, 2013, 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 (UAAL) for benefits was $1.7 billion. The covered annual payroll was $1.417 billion and the ratio of the UAAL to the covered payroll was 120.2 percent.

The required schedule of funding progress immediately following the City of Philadelphia CAFR's 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 the 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 percent per year. The actuarial assumption included a 7.95 percent compound annual interest rate on the City's general investments.

The current plan incorporates the following assumptions: no post-retirement benefit increases since last year; a 7.85 percent Investment Rate of Return; a 3.3 percent Rate of Salary Increases; and, a 4 percent Ultimate Rate of Medical Inflation.

18. RISK MANAGEMENT

The Aviation Fund 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 Aviation Fund is self-insured for Workers' Compensation and Unemployment Compensation and insured through insurance carriers for other coverage.

The City covers all claim settlements and judgments, except for those discussed above, out of the resources of the fund associated with the claim. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include: an estimate of claims that have been incurred but not reported; the effects of specific, incremental claims adjustment expenditures, salvage and subrogation; and unallocated claims adjustment expenditures.

At June 30, the amount of these liabilities was $402.8 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, 2012 resulted from the following:

(Amounts in Millions of USD)

Fiscal Years Ending June 30	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
2012	$ 353.5	$ 102.1	$ (99.8)	$ 355.8
2013	$ 355.8	$ 101.6	$ (101.3)	$ 356.1
2014	$ 356.1	$ 157.1	$ (110.4)	$ 402.8

The City's Unemployment Compensation and Workers' Compensation coverages are provided through its General Fund. Unemployment Compensation and Workers' Compensation coverages are funded by a pro-rata charge to the various funds. Payments for fiscal years 2014 and 2013 were $3.2 million and $4.6 million for Unemployment Compensation claims and $62.2 million and $63.8 million for Workers' Compensation claims, respectively.

The City's estimated outstanding workers' compensation liabilities are $280.2 million discounted at 3.5 percent. On an undiscounted basis, these liabilities total $367.5 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 $251.7 million (discounted) and $330.9 million (undiscounted). The Aviation Fund's accrued liability for workers' compensation was $5.6 million and $3.5 million at June 30, 2014 and 2013, respectively. Further discrete information is not available for the Aviation Fund.

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.

19. COMMITMENTS

The Aviation Fund had commitments of approximately $33.8 million and $35.5 million for operating expenses and $104.4 million and $133.4 million for capital assets and improvements for fiscal years 2014 and 2013, respectively. The Aviation Fund expects to fund these commitments through operating revenue and through capital grants, bond proceeds, and passenger facility charges.

20. CONTINGENCIES

Claims Litigation

Condemnation of Tract of Land k/a Parcel C (within Eastwick Urban Renewal Area, CCP Phila. Co., Consolidated Case No. 091104734): In November 2003, the City filed a declaration of taking condemning certain property known as Parcel C within the Eastwick Urban Renewal Area Plan of 1958 for the benefit of Philadelphia International Airport. The Philadelphia Redevelopment Authority ("PRA") (formerly known as the "Redevelopment Authority of the City of Philadelphia" or "RDA") was the record title holder of the property. The City deposited in Court in April 2006 estimated just compensation in the amount of $7,714,000.

In 2007, Eastwick Development Joint Venture IX, L.P. and New Eastwick Corporation ("Eastwick Development") petitioned the Court for appointment of a Board of Viewers and the Court appointed a Board of View to ascertain and award just compensation. Eastwick Development alleged they owned or held equitable interests in and certain development rights to the condemned property and had not received just compensation.

After a view of the premises and a hearing in July 2009, the Board of View filed a report with the Court in October 2009. The Board made an award of just compensation for the property of $13,500,500 (including attorney fee), subject to credit for the $7,714,000 million already paid and distributed. In addition, the Board awarded delay damages from the date of taking (November 18, 2003) until July 31, 2009 in the amount of $3,298,200 and accruing interest thereafter until payment.

The City filed its appeal to the Court of Common Pleas in November 2009, requesting a jury trial de novo. The City objected, among other things, to the award of any compensation amount beyond that amount already paid into court, to evidentiary, procedural and substantive errors in the Board of View proceeding and award, and to the delay damage computation and award. Eastwick Development filed a separate appeal from the Board of View Report to the Court of Common Pleas in November 2009. Eastwick Development sought a jury trial de novo and objected to the sufficiency of the amount of compensation awarded.

The parties completed discovery. At a final pretrial conference, the Court issued an order consolidating the two separate appeals from the Board of View report and scheduled the case for trial. Subsequently, at the request of the parties, the Court adjourned the start of trial on the basis of a settlement in principle.

The parties thereafter signed a binding settlement term sheet. The settlement term sheet provided for, among other things, discontinuance of the lawsuit, payment by the City of $9.6 million, an amended redevelopment agreement, and release or transfer of property interests to City, all upon certain terms and conditions, and to take effect or occur on or before an Effective Date. If the conditions precedent and Effective Date do not occur, the settlement will expire and the parties will be restored to their previous litigation positions (with some modification to any accrual of delay damages). The Court ordered the case to remain in deferred status to allow for implementation of the settlement.

The parties have agreed several times to extend the potential Effective Date of the settlement. Currently, they have agreed to extend the date to June 30, 2015. The case was marked settled by the Court. Should the settlement not take effect on account of a failure of condition, the case may be restored to trial list, on the request of either party, as if the case had not been marked settled.

The City will vigorously contest the award if settlement is not consummated. At this time, the City's attorneys are unable in their professional judgment to evaluate the likelihood of an unfavorable outcome in terms of probability and the range or amount of any loss assuming an unfavorable outcome. Any ultimate judgment would be paid from the Aviation Fund.

G&T Conveyor Co., Inc. v. Ernest Bock & Sons, Inc. et al., v. City et al., CCP Phila. No. 091103117: G&T commenced a civil action for declaratory and monetary relief against Ernest Bock & Sons, Inc. ("Bock"), Liberty Mutual Insurance Company ("Liberty") and Fidelity and Deposit Company of Maryland ("Fidelity"), issuers of a payment bond on behalf of Bock. G&T sued Bock for, among other things, about $1.3 million in damages for work performed but unpaid by Bock; and for nearly $7 million in additional costs incurred as a result of construction delays G&T attributed to Bock.

Bock had successfully bid to perform general contractor work on the Airport's Terminal D&E expansion and modernization project for baggage system (Bid #6851; Contract #084002). G&T subcontracted with Bock to supply all necessary labor, supervision, material and equipment to furnish the baggage handling equipment. Bock's Purchase Order (subcontract) with G&T required that G&T perform and complete work in strict accordance with the Plans and Specifications, and eleven addenda and other terms and conditions prepared by Daroff Design Inc. ("DDI"), and in compliance with certain milestones and deadlines. G&T alleged that by early 2010, the project was over 660 days behind schedule and its attempts to address and resolve delay and other problems with Bock had failed.

Bock answered the Complaint, denying responsibility, asserting affirmative defenses and counterclaiming against G&T for damages caused by G&T's alleged breach of its contract obligations. Bock also filed a "third party" complaint against the City and others, particularly Chisom Electrical (reportedly a defunct entity).

Bock contended the City was solely liable or liable with Bock to G&T on the "delay damages" claims made by G&T, pursuant to common law theories of indemnification and contribution. Bock also claimed the City was liable to Bock for damages caused by the City's material breaches of its contract with Bock. Bock alleges that these damages are approximately $1.7 million in addition to the G&T damages for which Bock seeks recovery from the City.

The City filed preliminary objections to the Third Party Complaint, challenging its propriety and sufficiency, but the Court overruled the objections and ordered the filing of an Answer. The City filed an Answer to Bock's third party complaint, asserting its defenses, counterclaims against Bock for indemnity and breach of contract and the bonding companies for indemnity, and added a fourth party claim against the designer of the project, DDI. The City thereafter made a tolling agreement with DDI. The Court dismissed DDI from the case pursuant to a voluntary discontinuance of claims against DDI.

The parties completed the initially scheduled discovery and submitted expert reports. The Court denied the City's petition to dismiss the claims against it for lack of subject matter jurisdiction (the City claimed in essence the absence of a justifiable controversy due to the incomplete status of the project and the absence of required inspection, testing and approval of the system). The City filed a motion to amend its Answer to add a more specific defense of release. The Court granted that motion and the City filed an Amended Answer. In addition, the City has asserted liquidated damages claim against Bock, on account of the incomplete work, and has received delay claims from two other contractors, due to the unfinished work on the baggage handling system (BHS) project.

G&T filed a motion for partial summary judgment, opposed by Bock and City. After oral argument, the Court granted the motion solely as to legal interpretation of particular contract terms, and denied the balance. City and Bock filed motions for summary judgment that were opposed by G&T and both were denied.

Judge Snite agreed with the City and Bock that the case cannot be tried until at least the BHS had successfully completed the integrated site acceptance testing ("ISAT"). Both the City and Bock filed Motions for Extraordinary Relief requesting that the Court reopen discovery and move the trial date to a later date, based primarily on the fact that the system had not passed ISAT. Judge Snite, on August 28, 2012 after an on-the-record conference, granted the Motions for Extraordinary Relief over G&T's opposition. As a result, Judge Snite reopened discovery and rescheduled trial.

TSA conducted another round of ISAT in August 2012. On September 5, 2012, the TSA issued a quick look report ("QLR") which noted that the BHS had failed ISAT. On September 7, 2012, the City issued a Notice of Default to Bock based on the QLR.

Subsequently, G&T filed a Motion asking the Court to declare that TSA conducted the ISAT according to the wrong standards and that future ISAT testing should be conducted differently. The City responded to that Motion with affidavits from TSA's testing agent, Battelle Memorial Institute, and from the City's security consultant noting that they had personally witnessed the testing and that the testing conformed to the applicable standards and that ISAT demonstrated that the BHS fails to meet the contract standards. The Court denied this Motion without prejudice.

On January 17, 2013, the City issued a Notice of Termination to Bock for cause based on the failure of Bock to provide a working BHS that could pass ISAT. Bock brought a Motion for Special Injunction to enjoin the Notice of Termination. On January 23, 2013, the Court stayed the "legal effect" of the Notice on Bock only, and not Bock's surety, until January 28, 2013 to allow the judge to hear the matter. On January 28, 2013, Bock withdrew the Motion for Special Injunction, and the Termination became effective as to Bock on January 28. Bock also issued a Notice of Termination to G&T on January 28 for failure to perform.

After termination, the Court ordered that G&T assist in the copying of all software and source code on the BHS and provide copies of all passwords and passcodes for the BHS and place all the information in escrow. As part of that order, the Court required that the BHS not be modified pending further review of the Court. G&T failed to comply with portions of the Order concerning copying and escrow. The City moved for contempt of the Order, and the Court held G&T in contempt.

Bock and G&T also moved to have the Court order testing to determine the status of the BHS at testing. The Court ordered that Alliant, a company previously under contract with both Bock and G&T, would perform the status quo testing. To the extent G&T requested testing different than G&T's earlier-requested testing, Judge Snite denied G&T's request. Testing was to begin by March 18, 2013 and conclude by April 5, 2013. Testing concluded on March 27, 2013 with Alliant determining that the BHS was not ready for ISAT and further demonstrating the basis for termination. As part of the testing order, the Court maintained requirement that the BHS not be modified pending further order of the Court.

On April 4, 2013, the Court transferred all of the Bock and City cases from Judge Snite to Judge McInerney. The City moved to remove the limitation on modification of the BHS. The Court held argument on the City's Motion to Lift the Stay on June 6, 2013. During this time, G&T had appealed to the Superior Court Judge Snite's denial of G&T's testing plan to the extent it was different than Bock's testing plan. On July 8, 2013, the Superior Court granted the City's Motion to Quash G&T's appeal. That same day, Judge McInerney granted the City's Motion to Lift the Stay.

Subsequently, G&T moved for permission to retest the BHS. On September 10, 2013, the Court granted G&T the opportunity to retest provided it met a number of requirements including securing TSA's approval and beginning testing by October 7, 2013. Testing did not begin by October 7 and TSA denied G&T's request to retest. Testing was to conclude by November 11, 2013. On November 13, 2013, the Court issued an order which denied G&T's supplemental request to extend the time to test, held the time for testing had expired and stated that the Court's prior order allowing repairs to go forward remained in effect. Repair efforts have proceeded, with repairs and confirmatory testing scheduled to be completed in the third quarter of 2015.

At the urging of the Court, the parties conducted non-binding mediations before former Pennsylvania Supreme Court Justice Nigro on June 10, 2014 and on December 18, 2014. Those mediations were unsuccessful. The Court then ordered a settlement conference before her on January 28, 2015. That conference culminated in a tentative settlement that all parties have approved in broad outline, subject to negotiation and execution of a definitive settlement agreement. Under the tentative settlement, in material part, the City will not pay any amount to Bock (or G&T) on this project except for post-settlement work that is duly authorized by approved change order.

The tentative settlement also will settle two other lawsuits between Bock and the City. Neither of those lawsuits involves claims against the City that meet the materiality threshold used to determine what matters are to be disclosed. The tentative settlement provides for no payment by the City to settle one of those two other lawsuits. For the other such lawsuit, the tentative settlement involves a payment by the City to Bock for work Bock has performed for the City and for which it has not been paid, and to settle all claims, which payment amount is substantially below the materiality threshold.

If the tentative settlement is not approved by execution of a definitive settlement agreement, and the matter proceeds through further litigation and trial, the City intends to mount vigorous defenses to defeat Bock's claims (both Bock's delay claims and the G&T pass-through claims). The City's lawyers reasonably believe that the third party plaintiff (Bock) will not likely succeed on its claims or for the amount of damages sought and that the City's defenses have merit.

PHL PHILADELPHIA INTERNATIONAL AIRPORT

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PHILADELPHIA
AVIATION FUND
Reconciliation of Fund Balance (Legally Enacted Basis) to Net Position (GAAP Basis)

	Fiscal 2014	Fiscal 2013	Percentage Increase (Decrease)
Fund balance, legal basis	$ 16,333,861	$ 46,907,843	-65.2%
Add assets not included in legal basis:			
Current assets	29,037,444	15,863,380	83.0%
Fixed assets, net of depreciation	1,812,358,310	1,805,027,135	0.4%
Restricted assets	419,375,171	442,919,267	-5.3%
	2,260,770,925	2,263,809,782	-0.1%
Deduct liabilities not included in legal basis:			
Construction accounts payable	(27,284,796)	(21,510,083)	26.8%
Current liabilities	(43,831,066)	(52,718,844)	-16.9%
Bonds payable	(1,283,975,298)	(1,346,304,012)	-4.6%
Other long-term liabilities	(55,954,468)	(47,915,865)	16.8%
	(1,411,045,628)	(1,468,448,804)	-3.9%
Add (deduct) fund balance accounts included in legal basis:			
Reserve for encumbrance, current	33,320,663	33,584,493	-0.8%
Reserve for encumbrance, prior	(9,968,031)	(10,361,104)	-3.8%
Reserve for collectible accounts	5,581,269	1,436,593	288.5%
	28,933,901	24,659,982	17.3%
Net position - GAAP basis	$ 894,993,059	$ 866,928,803	3.2%

CITY OF PHILADELPHIA
AVIATION FUND
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014
(Amounts in thousands)

	Budgeted Amounts			Final Budget to Actual Positive
	Original	Final	Actual	(Negative)
Revenues				
Locally Generated Non-Tax Revenue	$408,350	$373,345	$320,623	($52,722)
Revenue from Other Governments	3,500	4,650	2,120	(2,530)
Revenue from Other Funds	2,675	2,400	1,098	(1,302)
Total Revenues	414,525	380,395	323,841	(56,554)
Expenditures and Encumbrances				
Personal Services	65,602	66,709	63,619	3,090
Pension Contributions	30,250	33,703	33,703	-
Other Employee Benefits	18,564	21,105	21,104	1
Sub-Total Employee Compensation	114,416	121,517	118,426	3,091
Purchase of Services	122,386	122,386	106,628	15,758
Materials and Supplies	9,639	9,893	9,069	824
Equipment	8,230	7,976	1,980	5,996
Contributions, Indemnities and Taxes	8,217	8,217	1,109	7,108
Debt Service	135,849	129,764	125,407	4,357
Payments to Other Funds	21,973	21,973	7,187	14,786
Advances, Subsidies, Miscellaneous	5,003	3,987	-	3,987
Total Expenditures and Encumbrances	425,713	425,713	369,806	55,907
Operating Surplus (Deficit) for the Year	(11,188)	(45,318)	(45,965)	(647)
Fund Balance Available for Appropriation, July 1, 2013	41,028	46,908	46,908	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	15,000	22,000	15,392	(6,608)
Adjusted Fund Balance, July 1, 2013	56,028	68,908	62,300	(6,608)
Fund Balance Available for Appropriation, June 30, 2014	$44,840	$23,590	$16,335	($7,255)

APPENDIX III

THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION

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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 fifth largest city in the nation with approximately 1,553,165 residents (based on 2013 estimates). The City is also the center of the United States' sixth largest metropolitan statistical area, which is an 11-county area encompassing the City, Camden, NJ, and Wilmington, DE and represents approximately 6,035,000 residents (based on 2013 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 LaSalle University are well-known institutions of higher education located in the City. There are also a number of 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 presently 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, five medical schools, two dental schools, two pharmacy schools, as well as schools of 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, 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.

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 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 appointed by the Mayor are the Managing Director of the City (the "Managing Director"), the Director of Finance of the City (the

"Director of Finance"), the City Solicitor (the "City Solicitor"), the Director of Commerce (the "Director of Commerce"), and the City Representative (the "City Representative"). In addition to the foregoing principal officers, the Mayor also utilizes a deputy mayor structure, which includes additional individuals that comprise the Mayor's cabinet.

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

The City Solicitor is head of the Law Department and acts as legal advisor to the Mayor, 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 Nutter'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 Nutter, his Chief of Staff, the Director of Finance and the City Treasurer:

Michael A. Nutter, Mayor, was sworn in for a second consecutive term on January 2, 2012 as Mayor of his hometown. Born in Philadelphia and educated at the Wharton School at the University of Pennsylvania, Michael Nutter has been committed to public service since his youth in West Philadelphia. Before his election as Mayor, he served almost 15 years on City Council, earning the reputation of a reformer.

In 2008, the Mayor laid out a vision for Philadelphia to focus his administration around five key goals designed to make the City safer, healthier, greener, and more competitive, and to create an ethical government that serves all of its citizens. Philadelphia has made progress on these fronts after weathering the impacts of the recession and the slower than expected economic recovery. The Revised Twenty-Fourth Five-Year Plan (as defined herein) makes investments to further each of the Mayor's five goals:

- Goal 1: Philadelphia becomes one of the safest cities in America;
- Goal 2: The education and health of Philadelphians improves;
- Goal 3: Philadelphia is a place of choice;
- Goal 4: Philadelphia becomes the greenest and most sustainable city in America; and
- Goal 5: Philadelphia government works efficiently and effectively, with integrity and responsiveness.

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

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

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

Government Services

Municipal services provided by the City include: (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.

The City owns the assets that comprise the Philadelphia Gas Works ("PGW" or the "Gas Works"). PGW serves residential, commercial, and industrial customers in the City. PGW is operated by Philadelphia Facilities Management Corporation ("PFMC"), a non-profit corporation specifically organized to manage and operate PGW for the benefit of the City.

In 2012, the City engaged a team of legal and financial advisors to assist it with a process to consider the sale of PGW to a private entity. On March 2, 2014, the City, as seller, entered into an agreement, providing for the sale of a portion of the assets that comprise PGW and the transfer of PGW operations to a private entity. Closing on the agreement was subject to authorization by City Council and approval by the Pennsylvania Public Utility Commission ("PUC"), among other things. City Council did not introduce legislation authorizing the sale of PGW or hold hearings on such sale under the terms of the agreement. As a result, the prospective buyer terminated the agreement. Presently, the City does not have plans to sell PGW.

For more information on PGW, see "DISCUSSION OF FINANCIAL OPERATIONS – Current Financial Information – Fiscal Year 2015 Adopted Budget," "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 its affiliate, the Philadelphia Authority for Industrial Development ("PAID"), coordinate the City's efforts to maintain an attractive business environment, attract new businesses to the City, and retain existing businesses. Of the 30 members of the board of PIDC, seven are City officers or officials (the Mayor, the Director of Commerce, the President of City Council or a designee, the Chairman of the City Planning Commission, the City Solicitor, the Managing Director, and the Director of Finance), 15 are nominated jointly by the President of the Greater Philadelphia Chamber of Commerce and the Director of Commerce, and eight are nominated by the President of the Greater Philadelphia Chamber of Commerce. The five-member board of PAID is appointed by the Mayor.

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 "Land Bank") was created in 2014 with a mission to return vacant and tax delinquent property to productive reuse. The Land Bank is an independent agency formed under the authority of City ordinance and Pennsylvania law. The Land Bank 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.

The Land Bank 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) clear the title to those properties so that new owners are not burdened by old liens; and (iv) assist in the assemblage and disposition of land for community, nonprofit and for-profit uses.

On October 30, 2014, the Land Bank approved its first proposed strategic plan (the "Strategic Plan"), which identifies market conditions across the City, identifies inventory of vacant and tax delinquent properties that the Land Bank could take in, and sets goals to guide Land Bank activity. Such goals include priority acquisition areas and annual targets against which to measure progress. On December 11, 2014, City Council approved the Strategic Plan. In December, the Mayor and City Council appointed their respective members to the Land Bank's permanent board of directors, replacing the interim board that was named in the authorizing ordinance. This board of directors convened for the first time in late January 2015, appointed the final member of the board, and elected officers.

Philadelphia Housing Authority. The Philadelphia Housing Authority (the "Housing Authority") 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. The Housing Authority is the fourth largest public housing authority in the United States and is responsible for developing and managing low and moderate income rental units and limited amounts of for-sale housing in the City. The Housing Authority is also responsible for administering rental subsidies to landlords who rent their units to housing tenants qualified by the Housing Authority for such housing assistance payments. The Housing Authority 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 Housing Authority residents.

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

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.

The School District. The School District was established by the Educational Supplement to the City Charter 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 Reform Commission may delegate duties to the Board of Education. Two of the five members of the School Reform Commission are appointed by the Mayor and three by the Governor of the Commonwealth, subject to confirmation by the Pennsylvania Senate.

Under the City Charter, the School District's governing body is required to levy taxes annually, within the limits and upon the subject 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. In some matters, including the incurrence of short-term and long-term debt, the School District is governed primarily by the laws of the Commonwealth. The School District is a separate political subdivision of the Commonwealth, and the City has no property interest in or claim on any revenues or property of the School District.

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 of Pennsylvania, the President pro tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives and the Minority Leader of the Pennsylvania House of Representatives each appoints one voting member of PICA's board. The Secretary of the Budget of the Commonwealth and the Director of Finance of the City serve as ex officio members of PICA's board with no voting rights.

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 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 the construction and operation of parking facilities in the City and at Philadelphia International Airport ("PHL") and, by contract with the City, for enforcement of on-street parking regulations. The members of the PPA's board are appointed by the Governor of the Commonwealth, 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 2014 (the "Fiscal Year 2014 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 2014 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 2016 operating budget was presented to City Council on March 5, 2015, approved by City Council on June 18, 2015, and signed by the Mayor on June 18, 2015.

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 Improvement Program for Fiscal Years 2016-2021 (the "Capital Improvement Program") was approved by City Council on June 18, 2015, and signed by the Mayor on June 18, 2015.

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 2015 operating budget (the "Fiscal Year 2015 Adopted Budget") and the Fiscal Year 2016 Adopted Budget (as defined below), see "– Current Financial Information – Fiscal Year 2015 Adopted Budget" and "Fiscal Year 2016 Adopted Budget" below. For a summary of the Capital Improvement Program, see Table 47.

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 the 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.

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. The City has updated the previous Fiscal Year's five-year plan with the preparation of each new five-year plan. For information on the five-year plan for Fiscal Years 2016-2020, see "– Current Financial Information – Fiscal Year 2016 Adopted Budget and Revised Twenty-Fourth Five-Year Plan" below.

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. As of July 16, 2015 (the date PICA approved the Revised Twenty-Fourth Five-Year Plan), PICA has declared no further variances. 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 June 30, 2015, which was released on August 17, 2015 (the "Fourth Quarter QCMR"). The next Quarterly City Manager's Report will be for the period ending September 30, 2015, and is expected to be released by November 16, 2015.

Overview of City Response to Economic Downturn

Between October 2008 and December 2011, the City implemented significant actions to balance its operating budget and its five-year plans, including reducing overtime costs, reducing General Fund full- and part-time employee headcount, implementing a temporary five-year sales tax increase (which expired on June 30, 2014) and a 9.9% Real Estate Tax increase in Fiscal Year 2011, pension funding changes, freezing City funded wage and business tax reductions until Fiscal Year 2014, increasing fees, and instituting spending cuts throughout the City government. During this period of time, the City improved its public safety results due to important changes in policing and largely maintained delivery of its services. The City undertook these measures as a result of the impact of the national and global recession.

Beginning in August 2008, the City began to experience adverse budgetary performance for Fiscal Year 2009 as a result of the recession. In November 2008, the City projected a revenue to expenditure gap of at least $1 billion over the five-year period covering Fiscal Years 2009-2013, and the City took a series of measures to close the projected gap for Fiscal Years 2009-2013. However, the economy deteriorated further and revenues declined at a greater pace than had been projected, leaving the City with a Fiscal Year 2009 operating deficit of $286.8 million, resulting in a deficit of $236.8 million after prior year net adjustments of $41.8 million and a cumulative adjusted year-end General Fund balance deficit of $137.2 million. Tax receipts continued to display weakness in Fiscal Year 2010, increasing the projected revenue to expenditure gap for Fiscal Years 2010-2014. In total during the six-year period of Fiscal Years 2009-2014, the projected revenue shortfall was estimated to reach $2.4 billion. As a result of the budgeting measures outlined above, the City had (i) an actual cumulative adjusted year-end General Fund balance deficit of $114.0 million in Fiscal Year 2010, (ii) an actual cumulative adjusted year-end General Fund balance surplus of approximately $92,000 in Fiscal Year 2011, (iii) an actual cumulative adjusted year-end General Fund balance surplus of approximately $146.8 million in Fiscal Year 2012, (iv) an actual cumulative adjusted year-end General Fund balance surplus of $256.9 million in Fiscal Year 2013, and (v) an actual cumulative adjusted year-end General Fund balance surplus of $202.1 million in Fiscal Year 2014. See also Table 1 below.

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Summary of Operations

The following table presents the summary of operations for the General Fund for Fiscal Years 2011-2014 (actual), Fiscal Year 2015 (budget and current estimate), and Fiscal Year 2016 (budget). 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 recent revised Fiscal Year 2015 estimate, which was published by the City on August 17, 2015, as part of the Fourth Quarter QCMR.

Table 1
General Fund
Summary of Operations (Legal Basis)
Fiscal Years 2011-2014 (Actual), 2015 (Budget and Current Estimate) and 2016 (Budget)
(Amounts in Millions of USD)[(1), (2)]

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Adopted Budget 2015	Current Estimate 2015	Adopted Budget 2016
Revenues							
Real Property Taxes[(3)]	482.7	500.7	540.5	526.4	547.4	527.9	581.1
Wage and Earnings Tax	1,134.3	1,196.3	1,221.5	1,261.6	1,294.7	1,323.1	1,370.6
Net Profits Tax	8.8	15.1	19.2	16.3	20.5	19.8	18.5
Business Income and Receipts Tax[(4)]	376.9	389.4	450.9	461.7	453.2	466.3	453.9
Sales Tax[(5)]	244.6	253.5	257.6	263.1	154.6	143.8	149.4
Other Taxes[(6)]	211.7	215.4	243.7	266.9	277.9	300.9	333.2
Additional Tax Collections from Data Warehouse Project[(7)]	0.0	0.0	0.0	0.0	0.0	0.0	5.7
Total Taxes	2,459.1	2,570.4	2,733.5	2,795.9	2,748.2	2,781.9	2,912.3
Locally Generated Non-Tax Revenue	280.0	256.7	266.2	301.8	970.7[(8)]	297.3	275.8
Revenue from Other Governments							
Net PICA Taxes Remitted to the City[(9)]	293.8	295.2	314.0	318.7	338.0	338.0	353.5
Other Revenue from Other Governments[(10),(11)]	772.7	420.7	337.5	347.3	300.9	306.3	298.3
Total Revenue from Other Governments	1,066.5	715.9	651.5	666.0	638.9	644.3	651.8
Receipts from Other City Funds	54.6	48.3	46.8	42.0	67.9	44.0	65.2
Total Revenue	3,860.3	3,591.4	3,698.0	3,805.6	4,425.7	3,767.5	3,905.1
Obligations/Appropriations							
Personnel Services	1,360.4	1,319.0	1,362.4	1,450.6	1,433.9	1,506.2	1,534.4
Purchase of Services	1,127.8	760.8	757.8	787.6	814.9	809.7	832.7
Materials, Supplies and Equipment	78.3	79.9	85.4	88.8	92.6	92.3	97.1
Employee Benefits	967.1	1,066.2	1,119.1	1,194.1	1,817.3[(8)]	1111.7	1,172.2
Indemnities, Contributions and Refunds[(12)]	111.1	118.0	138.3	208.6	145.2	151.2	187.6
City Debt Service[(13)]	110.4	111.3	118.9	122.5	136.6	132.4	141.4
Other	0.0	0.0	0.0	0.0	52.8[(14)]	0.0	0.0
Payments to Other City Funds	30.3	29.5	31.5	34.4	31.2	37.5	32.7
Total Obligations/Appropriations	3,785.3	3,484.9	3,613.3	3,886.6	4,524.6	3,840.9	3,998.1
Operating Surplus (Deficit) for the Year	75.0	106.5	84.7	(80.9)	(98.8)	(73.4)	(93.0)
Net Adjustments – Prior Year	39.1	40.2	25.4	26.1	20.4	16.1	22.9
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance Prior Year	(114.0)	0.1	146.8	256.9	146.8	202.1	139.4
Cumulative Adjusted Year End Fund Balance (Deficit)	0.1	146.8	256.9	202.1	68.4	144.8	69.3

(1) Sources: For Fiscal Years 2011-2014, the City's CAFRs for such Fiscal Years. For Fiscal Year 2015, the Fiscal Year 2015 Adopted Budget and the Fourth Quarter QCMR (as defined herein). For Fiscal Year 2016, the Fiscal Year 2016 Adopted Budget.
(2) Figures may not add up due to rounding.
(3) The amounts for Fiscal Years 2012 and 2013 reflect a respective 3.9% and 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) As of May 1, 2012, the Business Privilege Tax was renamed the Business Income and Receipts Tax.
(5) The amounts for Fiscal Years 2011-2014 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".
(6) Includes Amusement Tax, Real Property Transfer Tax, Parking Lot Tax, Smokeless Tobacco Tax and miscellaneous taxes.
(7) Reflecting anticipated improved collections of various existing taxes and decreased delinquencies. See "REVENUES OF THE CITY – Improved Collection Initiative."
(8) The Fiscal Year 2015 Adopted Budget included $700 million from the proposed sale of PGW. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services" and "– Current Financial Information – Fiscal Year 2015 Adopted Budget."
(9) Reflects 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."
(10) Fiscal Year 2011 was the last year that the full amount of revenue for DHS (as defined herein) was deposited into the General Fund. The decrease in revenues from Fiscal Year 2011 to Fiscal Year 2012 is largely due to the transfer of the majority of DHS revenue and obligations to the Grants Revenue Fund.
(11) Includes state gaming revenues.
(12) Includes contributions to the School District. See also Table 21 and the accompanying text herein.
(13) Excludes PICA bonds. See "DEBT OF THE CITY – PICA Bonds."
(14) The Fiscal Year 2015 Adopted Budget included funding for future contracts with District Council 33, IAFF and FOP, which were settled subsequent to the adoption of such budget.

Current Financial Information

Table 2 below shows General Fund balances for Fiscal Year 2014 (actual), Fiscal Year 2015 (budget and current estimate), and Fiscal Year 2016 (budget).

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

	Fiscal Year 2014 Actual[2] (June 30, 2014)	Fiscal Year 2015 Adopted Budget[3] (June 27, 2014)	Fiscal Year 2015 Current Estimate[4] (August 17, 2015)	Fiscal Year 2016 Adopted Budget[5] (June 19, 2015)
REVENUES				
Taxes	$2,795,884	$2,748,205	$2,781,895	$2,912,279
Locally Generated Non - Tax Revenues	301,755	970,712[6]	297,302	275,807
Revenue from Other Governments	666,009	638,912	644,291	651,815
Revenues from Other Funds of City	42,001	67,903	43,975	65,240
Total Revenue	**$3,805,649**	**$4,425,732**[6]	**$3,767,463**	**$3,905,141**
OBLIGATIONS / APPROPRIATIONS				
Personal Services	1,450,615	1,433,919	1,506,212	1,534,426
Personal Services - Employee Benefits	1,194,091	1,817,314[6]	1,111,659	1,172,183
Purchase of Services	787,615	814,898	809,666	832,668
Materials, Supplies and Equipment	88,814	92,612	92,346	97,082
Contributions, Indemnities and Taxes	208,587	145,192	151,167	187,631
Debt Service	122,481	136,578	132,351	141,398
Payments to Other Funds	34,361	31,215	37,455	32,715
Advances & Miscellaneous Payments	0	52,837	0	0
Total Obligations / Appropriations	**$3,886,564**	**$4,524,565**[6]	**$3,840,856**	**$3,998,103**
Operating Surplus (Deficit)	**(80,915)**	**(98,833)**	**(73,393)**	**(92,962)**
OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS				
Net Adjustments - Prior Years	26,148	20,388	16,085	22,885
Operating Surplus/(Deficit) & Prior Year Adj.	(54,767)	(78,445)	(57,308)	(70,077)
Prior Year Fund Balance	256,902	146,813[7]	202,135	139,401
Year End Fund Balance	**$202,135**	**$68,368**	**$144,827**	**$69,324**

(1) Amounts may not total due to rounding.
(2) From the Fiscal Year 2014 CAFR.
(3) From the Fiscal Year 2015 Adopted Budget.
(4) From the Fourth Quarter QCMR.
(5) From the Fiscal Year 2016 Adopted Budget.
(6) Includes the payment of $700 million to the Municipal Pension Plan from the proceeds of the sale of PGW, which did not occur. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services" and "– Current Financial Information – Fiscal Year 2015 Adopted Budget."
(7) As of June 27, 2014, the City estimated that Fiscal Year 2014 would end with a General Fund balance of $146.813 million. Upon the release of the Fiscal Year 2014 CAFR, the actual number reported was $202.135 million and such number has been included in the current estimate for Fiscal Year 2015.

Fiscal Year 2015 Adopted Budget. In the Fiscal Year 2015 Adopted Budget, total revenues were estimated to increase due to the inclusion of an estimated $700 million in one-time locally generated non-tax revenues from the proposed sale of PGW. Similarly, total obligations were estimated to increase as a result of an equal one-time expenditure of $700 million to be paid into the Municipal Pension Fund. The sale of PGW did not occur and such revenues and obligations are not included in the current estimate for Fiscal Year 2015. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services" for more information on PGW.

Fiscal Year 2015 Current Estimate. The current estimate for Fiscal Year 2015 is derived from information included in the Fourth Quarter QCMR.

Fiscal Year 2016 Adopted Budget and Revised Twenty-Fourth Five-Year Plan. On March 5, 2015, the Mayor submitted his proposed Fiscal Year 2016 budget to City Council (the "Proposed Fiscal Year 2016 Budget"), along with the proposed five-year plan for Fiscal Years 2016-2020 (the "Proposed Twenty-Fourth Five-Year Plan"). On June 18, 2015, City Council approved the Fiscal Year 2016 budget (the "Fiscal Year 2016 Adopted Budget"), which included certain key changes to the Proposed Fiscal Year 2016 Budget, such as the following:

- Labor arbitration awards for Local #159 (Correctional Officers) and the FOP – Sheriff and Register of Wills costing an additional $3.4 million;
- Increased contribution of $35 million to the School District proposed to be offset entirely by additional Parking and Real Estate Tax revenue (see "EXPENDITURES OF THE CITY – City Payments to School District"); and
- Other increases of General Fund appropriations totaling $4.7 million for various City programs.

On June 19, 2015, the City submitted to PICA its revised five-year plan for Fiscal Years 2016-2020, which reflects changes to the Proposed Twenty-Fourth Five-Year Plan required as a result of the Fiscal Year 2016 Adopted Budget (the "Revised Twenty-Fourth Five-Year Plan"). PICA approved the Revised Twenty-Fourth Five-Year Plan on July 16, 2015.

For Fiscal Years 2016-2020, the Revised Twenty-Fourth Five-Year Plan projects that the City will end such Fiscal Years with General Fund balances (on the legally enacted basis) of $69.32 million (Fiscal Year 2016), $33.99 million (Fiscal Year 2017), $47.19 million (Fiscal Year 2018), $94.42 million (Fiscal Year 2019), and $153.53 million (Fiscal Year 2020). The City continues to face uncertainty regarding the pace of economic growth. The estimated General Fund balances in Fiscal Years 2016-2020, which are low, could lead to financial risk.

Labor Agreements. The City now has contracts in place with all of its largest unions and the costs associated with these agreements are included in the Revised Twenty-Fourth Five-Year Plan. Because of this, the prior set-aside of funds for increased labor costs has been removed from the Fiscal Year 2016 Adopted Budget and the Revised Twenty-Fourth Five-Year Plan.

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."

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 2014 CAFR and notes therein. The Fiscal Year 2014 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 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 Municipal Securities Rulemaking Board ("MSRB") as soon as practicable after delivery of such report (but no later than February 25 of each year). The Fiscal Year 2014 CAFR was filed with the MSRB on February 25, 2015, through the MSRB's Electronic Municipal Market Access ("EMMA") system. The Fiscal Year 2014 CAFR is available on the City's investor information website at http://www.phila.gov/investor (the "City's Investor Website").

A wide variety of information concerning the City is available from publications and websites of the City and others, including 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, except as expressly noted.

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 2014 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 Fiscal Year 2014 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) personnel 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 was permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Acting under the Sterling Act and other legislation, the City has taken various steps over the years to reduce its reliance on real property taxes as a source of income, including: (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; and (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).

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 2011-2014, as well as the Fiscal Year 2015 Adopted Budget, the Fiscal Year 2016 Adopted Budget and current estimates for Fiscal Year 2015. 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 2011 through 2014 are contained in the Fiscal Year 2014 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 42. "Other Revenue from Other Governments" is set forth in Table 1 and a detailed breakdown of such revenues is shown in Table 12.

Table 3
General Fund Tax Revenues
Fiscal Years 2011-2016
(Amounts in Millions of USD) (1), (2), (3)

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Adopted Budget 2015	Current Estimate 2015	Adopted Budget 2016
Real Property Taxes(4)							
Current	$454.7	$464.4	$504.2	$483.9	$503.2	$483.7	$535.4
Prior	28.0	36.3	36.3	42.5	44.2	44.2	45.7
Total	$482.7	$500.7	$540.5(4)	$526.4	$547.4	$527.9	$581.1
Wage and Earnings Tax(5)							
Current	$1,127.4	$1,192.2	$1,219.5	$1,255.9	$1,290.4	$1,314.6	$1,364.1
Prior	6.9	4.1	2.0	5.7	4.3	8.5	6.5
Total	$1,134.3	$1,196.3	$1,221.5	$1,261.6	$1,294.7	$1,323.1	$1,370.6
Business Taxes							
Business Income and Receipts Tax(6)							
Current & Prior	$376.9	$389.4	$450.9	$461.7	$453.2	$466.3	$453.9
Net Profits Tax							
Current	$5.7	$12.2	$17.2	$13.2	$18.0	$14.8	$15.5
Prior	3.1	2.9	1.9	3.1	2.5	5.0	3.0
Subtotal Net Profits Tax	8.8	15.1	19.2	16.3	20.5	19.8	18.5
Total Business Taxes	$385.7	$404.5	$470.1	$478.0	$473.7	$486.1	472.4
Other Taxes							
Sales and Use Tax(7)	$244.6	$253.5	$257.6	$263.1	$154.6	$143.8	$149.4
Amusement Tax	20.8	21.9	19.1	20.0	20.9	18.9	19.2
Real Property Transfer Tax	116.6	119.4	148.0	168.1	176.6	201.7	221.9
Parking Taxes	71.6	70.9	73.3	75.1	76.9	76.9	88.6
Other Taxes	2.7	3.2	3.4	3.7	3.5	3.5	3.5
Subtotal Other Taxes	$456.3	$468.9	$501.3	$530.0	$432.5	$444.7	$482.5
Data Warehouse Project							
Additional Tax Collection(8)							$5.7
TOTAL TAXES	$2,459.1	$2,570.4	$2,733.5	$2,795.9	$2,748.2	$2,781.9	$2,912.3

(1) Sources: For Fiscal Years 2011-2014, the City's CAFRs for such Fiscal Years. For Fiscal Year 2015, the Fiscal Year 2015 Adopted Budget and the Fourth Quarter QCMR. For Fiscal Year 2016, the Fiscal Year 2016 Adopted Budget.
(2) See Table 7 in the Fiscal Year 2014 CAFR for tax rates.
(3) Figures may not add up due to rounding.
(4) The amounts for Fiscal Years 2012 and 2013 reflect a respective 3.9% and 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) As of May 1, 2012, the Business Privilege Tax was renamed the Business Income and Receipts Tax.
(7) The amounts for Fiscal Years 2011-2014 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 "– Sales and Use Tax."
(8) Reflecting anticipated improved collections of various existing taxes and decreased delinquencies. See "REVENUES OF THE CITY – Improved Collection Initiative."

Wage, Earnings, and Net Profits Taxes

The largest tax revenue source (comprising 45.7% of all tax revenues in Fiscal Year 2014 and estimated to comprise 48.3% of all tax revenues in Fiscal Year 2015) 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 2011-2016, the annual wage, earnings and net profits tax receipts in Fiscal Years 2011-2014, the current estimate of such receipts for Fiscal Year 2015, and the budgeted estimate of such receipts for Fiscal Year 2016.

Table 4
Summary of Wage, Earnings and Net Profits Tax Rates and Receipts
Fiscal Years 2011-2016(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)
2011	3.9280%	3.4985%	$1,501.8 (Actual)
2012	3.9280%	3.4985%	$1,568.9 (Actual)
2013	3.9280%	3.4985%	$1,617.2 (Actual)
2014	3.9240%	3.4950%	$1,662.3 (Actual)
2015	3.9200%	3.4915%	$1,746.6 (Current Estimate)
2016	3.9102%	3.4828%	$1,808.1 (Budget)

(1) See Table 7 in the Fiscal Year 2014 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 2011-2014, the City's CAFRs for such Fiscal Years. For Fiscal Year 2015, the Fourth Quarter QCMR. For Fiscal Year 2016, the Fiscal Year 2016 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 $86.27 million in Fiscal Years 2011-2014. The Fiscal Years 2015 Adopted Budget, Fiscal Year 2016 Adopted Budget and the current estimate for Fiscal Year 2015 is $86.28 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 2017 under the Revised Twenty-Fourth Five-Year Plan and under the Governor's proposed 2015-2016 budget.

In a recent decision by the Supreme Court of the United States, 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 is considering what impact this decision may have on its wage, earnings, and net profits tax revenues, but at this point in time no determinations have been made. 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.

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, the City Council by ordinance repealed the Mercantile License Tax and the General Business Tax and imposed the Business Privilege Tax. As of May 1, 2012, the Business Privilege Tax was renamed the Business Income and Receipts Tax (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 2011-2023. 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
2011	1.415 mills	6.45%
2012	1.415 mills	6.45%
2013	1.415 mills	6.45%
2014	1.415 mills	6.43%
2015	1.415 mills	6.41%
2016	1.415 mills	6.39%
2017	1.415 mills	6.35%
2018	1.415 mills	6.30%
2019	1.415 mills	6.25%
2020	1.415 mills	6.20%
2021	1.415 mills	6.15%
2022	1.415 mills	6.10%
2023	1.415 mills	6.00%

In addition, the 2011 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.

The net impact of the 2011 legislative changes has been an estimated decrease in revenues that could have been collected from the BIRT in the amount of $3.2 million in Fiscal Year 2014. In Fiscal Year 2015, such estimated decrease is projected to be $25.2 million, with the amounts of such estimated decreases projected to grow annually through Fiscal Year 2020, for which a $63.4 million estimated decrease is projected. For Fiscal Years 2015-2020, the estimated cumulative decrease in revenues that could have been collected from the BIRT without the above legislative changes is projected to be $308.1 million.

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 ("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. To date, approximately 76% of all eligible households have received the homestead exemption. 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 2011-2016 are set forth in Table 6 below:

Table 6
Real Estate Tax Rates and Allocations

Tax Year	City	School District	Total
2011	4.123%	4.959%	9.082%
2012	4.123%	5.309%	9.432%
2013	4.462%	5.309%	9.771%
2014[1]	0.6018%	0.7382%	1.340%
2015[1]	0.6018%	0.7382%	1.340%
2016[1]	0.6317%	0.7681%	1.3998%

[1] The reduction of the Real Estate Tax rates for tax years 2014, 2015 and 2016 reflect the City's Actual Value Initiative.

Fiscal Year 2015 Real Estate Tax revenue for the City is projected in the Fourth Quarter QCMR to be $483.7 million (excluding delinquent collections), slightly lower than the Fiscal Year 2014 actual amount of $483.9 million. Fiscal Year 2016 Real Estate Tax revenue for the City is budgeted in the Fiscal Year 2016 Adopted Budget to be $535.4 million (excluding delinquent collections). See Table 3 above. Real Estate Taxes are due on March 31 of each year.

Table 7 below shows the differences in the assessed values of properties used for tax year 2013 Real Estate Taxes (prior to AVI) and the assessed values used for tax year 2014, 2015, and 2016 Real Estate Taxes following the reassessment and implementation 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 determined.

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Table 7
Certified Property Values for Tax Years 2013, 2014, 2015, and 2016
(with Revised Market Values for Tax Years 2014 and 2015)

Tax Year 2013*

Category	Tax Status	Assessed Value	Taxable Assessed Value	Exempt Assessed Value	Number of Parcels
Residential	Fully Taxable	$21,257,133,434	$6,802,282,698	$0	448,609
Residential	Abatement	3,038,267,900	172,618,172	799,627,556	15,815
Residential	Exemption	176,246,000	978,711	55,420,009	6,257
Total		**$24,471,647,334**	**$6,975,879,581**	**$855,047,565**	**470,681**
Hotels and Apartments	Fully Taxable	$4,694,682,190	$1,502,298,301	$0	25,974
Hotels and Apartments	Abatement	826,716,800	87,482,601	177,066,775	539
Hotels and Apartments	Exemption	795,158,700	9,424,011	245,026,773	1,121
Total		**$6,316,557,690**	**$1,599,204,913**	**$422,093,548**	**27,634**
Store with Dwelling	Fully Taxable	$933,069,234	$298,582,155	$0	14,736
Store with Dwelling	Abatement	55,627,300	7,937,076	9,863,660	191
Store with Dwelling	Exemption	24,407,800	1,465,872	6,344,624	217
Total		**$1,013,104,334**	**$307,985,103**	**$16,208,284**	**15,144**
Commercial	Fully Taxable	$7,871,193,801	$2,518,782,016	$0	10,649
Commercial	Abatement	1,150,309,400	133,140,564	234,958,444	437
Commercial	Exemption	12,398,611,000	61,299,919	3,906,255,601	4,298
Total		**$21,420,114,201**	**$2,713,222,499**	**$4,141,214,045**	**15,384**
Industrial	Fully Taxable	$1,714,727,400	$548,712,768	$0	4,376
Industrial	Abatement	212,537,100	23,627,281	44,384,591	108
Industrial	Exemption	439,991,100	6,349,937	134,447,215	221
Total		**$2,367,255,600**	**$578,689,986**	**$178,831,806**	**4,705**
Vacant Land	Fully Taxable	$745,426,660	$238,536,531	$0	33,992
Vacant Land	Abatement	510,000	0	163,200	1
Vacant Land	Exemption	480,948,600	2,729,783	151,173,769	12,115
Total		**$1,226,885,260**	**$241,266,314**	**$151,336,969**	**46,108**
Grand Total		**$56,815,564,419**	**$12,416,248,396**	**$5,764,732,217**	**579,656**

*Certified Market Value as of 11/30/2012.

Tax Year 2014*

Category	Tax Status	Assessed Value	Taxable Assessed Value	Exempt Assessed Value	Number of Parcels
Residential	Fully Taxable	$61,109,079,400	$61,109,079,400	$0	449,977
Residential	Abatement	5,321,882,000	1,006,287,885	4,315,594,115	15,135
Residential	Exemption	600,339,500	9,097,095	591,242,405	6,085
Total		**$67,031,300,900**	**$62,124,464,380**	**$4,906,836,520**	**471,197**
Hotels and Apartments	Fully Taxable	$11,874,704,000	$11,874,704,000	$0	26,015
Hotels and Apartments	Abatement	2,016,286,000	630,265,222	1,386,020,778	531
Hotels and Apartments	Exemption	2,131,041,200	150,488,411	1,980,552,789	1,111
Total		**$16,022,031,200**	**$12,655,457,633**	**$3,366,573,567**	**27,657**
Store with Dwelling	Fully Taxable	$3,292,805,900	$3,292,805,900	$0	14,751
Store with Dwelling	Abatement	111,412,300	49,261,276	62,151,024	190
Store with Dwelling	Exemption	43,773,500	4,063,521	39,709,979	209
Total		**$3,447,991,700**	**$3,346,130,697**	**$101,861,003**	**15,150**
Commercial	Fully Taxable	$15,924,459,700	$15,924,459,700	$0	10,347
Commercial	Abatement	1,645,409,300	749,680,116	895,729,184	413
Commercial	Exemption	26,024,024,400	586,654,681	25,437,369,719	4,281
Total		**$43,593,893,400**	**$17,260,794,497**	**$26,333,098,903**	**15,041**
Industrial	Fully Taxable	$2,751,232,900	$2,751,232,900	$0	4,268
Industrial	Abatement	212,399,700	72,547,530	139,852,170	88
Industrial	Exemption	572,167,700	23,389,866	548,777,834	188
Total		**$3,535,800,300**	**$2,847,170,296**	**$688,630,004**	**4,544**
Vacant Land	Fully Taxable	$1,681,239,900	$1,681,239,900	$0	34,050
Vacant Land	Abatement	3,447,200	62,763	3,384,437	5
Vacant Land	Exemption	2,088,476,400	26,694,608	2,061,781,792	12,054
Total		**$3,773,163,500**	**$1,707,997,271**	**$2,065,166,229**	**46,109**
Grand Total		***$137,404,181,000**	**$99,942,014,774**	**$37,462,166,226**	**579,698**
		****$134,445,737,572**	**$94,919,215,922**	**$39,526,366,390**	**579,698**

* Certified Market Value as of 3/31/2013.
** Revised Market Value as of 7/17/2015.

Tax Year 2015*

Category	Tax Status	Assessed Value	Taxable Assessed Value	Exempt Assessed Value	Number of Parcels
Residential	Fully Taxable	$60,857,901,488	$60,857,901,488	$0	450,613
Residential	Abatement	$5,491,428,100	$1,082,840,451	$4,408,587,649	15,575
Residential	Exemption	$606,677,900	$9,683,298	$596,994,602	6,122
Total		**$66,956,007,488**	**$61,950,425,237**	**$5,005,582,251**	**472,310**
Hotels and Apartments	Fully Taxable	$12,137,156,500	$12,137,156,500	$0	25,574
Hotels and Apartments	Abatement	$1,962,493,600	$595,063,304	$1,367,430,296	576
Hotels and Apartments	Exemption	$2,112,930,200	$149,657,172	$1,963,273,028	1,102
Total		**$16,212,580,300**	**$12,881,876,976**	**$3,330,703,324**	**27,252**
Store with Dwelling	Fully Taxable	$3,167,238,700	$3,167,238,700	$0	14,544
Store with Dwelling	Abatement	$97,020,800	$44,216,602	$52,804,198	181
Store with Dwelling	Exemption	$40,883,100	$4,198,242	$36,684,858	199
Total		**$3,305,142,600**	**$3,215,653,544**	**$89,489,056**	**14,924**
Commercial	Fully Taxable	$15,364,630,300	$15,364,630,300	$0	10,150
Commercial	Abatement	$1,619,298,800	$729,888,364	$889,410,436	403
Commercial	Exemption	$25,810,707,200	$566,613,770	$25,244,093,430	4,299
Total		**$42,794,636,300**	**$16,661,132,434**	**$26,133,503,866**	**14,852**
Industrial	Fully Taxable	$2,737,960,700	$2,737,960,700	$0	4,189
Industrial	Abatement	$192,190,700	$70,341,441	$121,849,259	81
Industrial	Exemption	$554,278,000	$23,907,337	$530,370,663	185
Total		**$3,484,429,400**	**$2,832,209,478**	**$652,219,922**	**4,455**
Vacant Land	Fully Taxable	$1,531,824,135	$1,531,824,135	$0	33,983
Vacant Land	Abatement	$22,124,500	$2,134,462	$19,990,038	23
Vacant Land	Exemption	$2,034,115,700	$42,407,110	$1,991,708,590	12,029
Total		**$3,588,064,335**	**$1,576,365,707**	**$2,011,698,628**	**46,035**
Grand Total		***$136,340,860,423**	**$99,117,663,376**	**$37,223,197,047**	**579,828**
		****$135,204,347,059**	**$95,887,423,992**	**$39,316,923,067**	**579,828**

* Certified Market Value as of 3/31/2014.
** Revised Market Value as of 7/17/2015.

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		**$66,877,995,701**	**$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.

** Increase in exempt assessment for tax year 2016 is due to a shift of $6,425,966,073 in assessed value from taxable to exempt assessment to reflect the homestead exemption totals. This exemption had not been reflected in prior (tax years 2014 and 2015) assessment totals, but was reflected directly in the tax billing.

As part of the transition to the new assessment system, OPA set up a new process called a first level review ("FLR"), 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.

For tax year 2014, OPA received 51,301 requests for FLRs. Of the FLR requests in tax year 2014, many were resolved and did not result in formal appeals. The BRT received 25,014 formal appeals for tax year 2014. As of July 17, 2015, all but 150 FLRs and 1,964 formal BRT appeals have been decided. As a result of decisions rendered for those FLR and BRT appeals, the total taxable assessment has been revised from $99,942,014,774 (at certification on March 31, 2013) to $94,919,215,922 as of July 17, 2015. This is a net taxable assessment change of -$5,022,798,852. See Table 7.

For tax year 2015, OPA mailed only 3,700 Change of Assessment notices. OPA received 239 FLRs and BRT received 4,903 formal appeals. As of July 17, 2015, all but 54 FLRs and 2,125 formal BRT appeals have been decided. As a result of decisions rendered for those FLR and BRT appeals, the total taxable assessment has been revised from $99,117,663,376 (at certification on March 31, 2014) to $95,887,423,991. This is a net taxable assessment change of -$3,230,239,385. See Table 7.

The vast majority of the appeals for tax year 2014 have been disposed of by the BRT, and relatively few were filed for tax year 2015. The remaining appeals for tax year 2014 include mostly commercial appeals, and are expected to result in approximately the same rate of losses to the taxable assessment base as those that have been decided. All tax year 2014 and 2015 appeals are expected to have been decided by December of 2015, after which time the BRT will begin hearings on tax year 2016 appeals.

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

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. The City estimates that it will collect approximately $12.0 million of additional one-time tax revenues in Fiscal Year 2016 from taxpayers who are paying the tax year 2014 amounts and the tax year 2015 amounts in Fiscal Year 2016.

With AVI, the OPA planned to conduct full reassessments annually; however, staff resources have been redeployed to focus on the large number of appeals. For tax year 2016, OPA has proposed reassessments on properties in areas for which its uniformity measurements show that there are larger variations in assessed values than is standard under best assessment practice. In total, OPA has re-assessed approximately 126,000 properties for tax year 2016. OPA anticipates doing additional reassessments annually beginning in tax year 2017.

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

See Table 8 below for data with respect to Real Estate Taxes levied and collected by the City from 2010 to 2014. 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.

Table 8
City of Philadelphia
Real Property Taxes Levied and Collected
For the Calendar Years 2010-2014
(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	Percentage Collected in the Calendar Year of Levy	Collections in Subsequent Years[(5)]	Total Collections to Date: All Years	Percentage Collected to Date: All Years[(6)]
2010	$405.8	N/A	$353.7	87.2%	$41.8	$395.5	97.5%
2011	$509.1	N/A	$440.9	86.6%	$44.8	$485.7	95.4%
2012	$508.6	$492.2	$459.2	93.3%	$13.9	$473.1	96.1%
2013	$554.0	$538.0	$505.6	94.0%	$8.3	$513.9	95.5%
2014	$553.2	$535.8	$470.1[(6)]	87.7%[(6), (7)]	N/A	$470.1	87.7%

(1) Source: Fiscal Year 2014 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) Reflects collections through June 30, 2014.
(7) Preliminary analysis shows the 2014 calendar year percentage collected as of December 31, 2014 is 91.6% with $482.8 million in payments on an adjusted levy of $527.1 million. Outstanding appeals generated by the AVI initiative have had a significant impact on this collection rate. Adjusting for the appeals the collection rate approaches 93%.

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

Taxpayer	2016 Assessment[1]	2016 Percentage of Total Assessments
HUB Properties Trust	$265.7	0.27%
Nine Penn Center Associates	232.6	0.24
Phila Liberty Place ELP	207.7	0.21
Philadelphia Market Street	203.7	0.21
Tenet Health Systems Hahnemann	192.1	0.20
Commerce Square Partners	178.2	0.18
Maguire / Thomas	170.1	0.17
NNN 1818 Market Street 37	170.0	0.17
Franklin Mills Associates	163.2	0.17
Brandywine Cira	160.7	0.16
Total	$1,966.0	1.98%
Total Taxable Assessments[2]	$91,536.5	

Source: City of Philadelphia, Office of Property Assessment.
(1) 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.
(2) 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 Thru 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
3401L 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.

See "– Proposed Tax Rate Changes" for information regarding proposed reductions in both the City and School District portion of the Real Estate Tax commencing in Fiscal Year 2017 under the Governor's proposed 2015-2016 budget.

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 its $57,515,000 City Service Agreement Revenue Bonds, Series 2014B ("City Service Agreement Bonds") to fund a portion of the School District's operating deficit for its Fiscal Year 2015 and refund certain outstanding City Service Agreement Bonds. The debt service on the City Service Agreement Bonds is approximately $15 million annually through Fiscal Year 2018 and the City expects to pay 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 deficit for Fiscal Year 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.

The following table sets forth the City Sales Taxes collected in Fiscal Years 2011 through 2014, the current estimate for Fiscal Year 2015 and the budgeted amount for Fiscal Year 2016.

Table 11
Summary of City Sales Tax Collections
(Amounts in Millions of USD)[1]

Fiscal Year	City Sales Tax Collections
2011 (Actual)	$244.6
2012 (Actual)	$253.5
2013 (Actual)	$257.6
2014 (Actual)	$263.1
2015 (Current Estimate)	$143.8[2]
2016 (Budget)	$149.4[2]

(1) Sources: For Fiscal Years 2011-2014, the City's CAFRs for such Fiscal Years. For the current estimate for Fiscal Year 2015 and the budgeted amount for Fiscal Year 2016, the Fiscal Year 2016 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.

See "– Proposed Tax Rate Changes" below for information regarding a proposed reduction of the City Sales Tax commencing in Fiscal Year 2017 under the Governor's proposed 2015-2016 budget.

Other Taxes

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

Improved Collection Initiative

The City is pursuing a multifaceted strategy designed to improve collections of various taxes while decreasing delinquencies. Key compliance strategies continue to include revocation of commercial licenses and sequestration, 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 2011-2016 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 2011-2014 (Actual), 2015 (Current Estimate), and 2016 (Budget)
(Dollar Amounts in Millions of USD)[1]

Fiscal Year	Commonwealth[2]	Federal Government	Other Governments[3], [4]	Total	Percentage of General Fund Revenues
2011 (Actual)	$833.7	$170.1	$62.7	$1,066.5	27.6%
2012 (Actual)	536.8	97.0	82.1	715.9[5]	19.9
2013 (Actual)	233.6	39.7	64.2	337.5[5]	9.1
2014 (Actual)	255.3	31.0	61.0	347.3	9.1
2015 (Current Estimate)	215.6	29.5	57.2	302.3	8.0
2016 (Budget)	211.7	29.4	57.2	298.3	8.0

(1) Sources: For Fiscal Years 2011-2014, the City's CAFRs for such Fiscal Years. For Fiscal Years 2015 and 2016, the Fiscal Year 2016 Adopted Budget.
(2) Such revenues are for health, welfare, court, and various other specified purposes.
(3) Such revenues primarily consist of payments from PGW, parking fines and fees from PPA.
(4) Does not include the PICA Tax.
(5) Fiscal Year 2011 was the last year that the full amount of revenue for DHS (as defined herein) was deposited into the General Fund. The decrease in revenues from Fiscal Year 2011 to Fiscal Year 2012 and 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.

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 2011-2014, the current estimate for Fiscal Year 2015 and the budgeted amount for Fiscal Year 2016.

Table 13
Transfers from Water Fund to General Fund
Fiscal Years 2011-2014 (Actual), 2015 (Current Estimate) and 2016 (Budget)[1]

Fiscal Year	Amount Transferred
2011 (Actual)	$1,229,851
2012 (Actual)	$1,086,165
2013 (Actual)	$560,156
2014 (Actual)	$400,364
2015 (Current Estimate)	$800,000
2016 (Budget)	$900,000

(1) Sources: For Fiscal Years 2011-2014, the Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Years 2015 and 2016, the Fiscal Year 2016 Adopted 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. In certain prior Fiscal Years, PGW made an annual payment of $18 million to the General Fund. PGW made such annual payment in Fiscal Years 2012-2015. Revenue estimates contained in the Revised Twenty-Fourth Five-Year Plan include such $18 million annual payment to the General Fund from PGW for Fiscal Years 2016-2020. The Fiscal Year 2016 Adopted Budget includes such $18 million annual payment to the General Fund from PGW for Fiscal Year 2016. For more information on PGW, see "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services" and "DISCUSSION OF FINANCIAL OPERATIONS – Current Financial Information – Fiscal Year 2015 Adopted Budget."

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 through an Agreement of Cooperation ("Agreement of Cooperation") with the City.

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.

Pursuant to the Agreement of Cooperation, 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, commencing in Fiscal Year 2015, the threshold, which was previously set at $25 million, is 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 under the Agreement of Cooperation for Fiscal Years 2010-2014.

Table 14
PPA On-Street Parking Payments to the City
Fiscal Years 2010-2014
(Amounts in Millions of USD)[1]

Fiscal Year	Payments to the City
2010	$33.7
2011	$41.6
2012	$37.3
2013	$36.5
2014	$37.7

(1) Sources: City's CAFRs for Fiscal Years 2010-2014.

Proposed Tax Rate Changes

The Revised Twenty-Fourth Five-Year Plan includes future changes to some of the taxes described above. Also, the Governor's proposed 2015-2016 budget includes additional future changes which are incorporated into the Revised Twenty-Fourth Five-Year Plan. Such proposed future changes affect the following taxes.

Wage and Earnings Tax. Commencing in Fiscal Year 2017, 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, are proposed to continue under the Revised Twenty-Fourth Five-Year Plan. The Governor's proposed 2015-2016 budget would provide for additional reductions beginning in Fiscal Year 2017. The following table details rates under the Revised Twenty-Fourth Five-Year Plan and under the Governor's proposed 2015-2016 budget.

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

	Revised Twenty-Fourth Five-Year Plan		**Governor's Proposed 2015-2016 Budget**	
Fiscal Year	Resident Wage and Earnings Tax Rates[2]	Non-Resident Wage and Earnings Tax Rates	Resident Wage and Earnings Tax Rates[2]	Non-Resident Wage and Earnings Tax Rates
2016[3]	3.9102%	3.4828%	3.9102%	3.4828%
2017	3.9004%	3.4741%	3.4831%	3.1147%
2018	3.8907%	3.4654%	3.4874%	3.1181%
2019	3.8129%	3.3961%	3.4233%	3.0606%
2020	3.7366%	3.3282%	3.3603%	3.0041%

(1) Source: The Revised Twenty-Fourth Five-Year Plan.
(2) Includes PICA Tax. See "DEBT OF THE CITY – PICA Bonds" for a description of the PICA Tax.
(3) Changes went into effect July 1, 2015.

Receipts from the Wage and Earnings Tax, estimated under the Revised Twenty-Fourth Five-Year Plan to grow at a rate of 4.00% in Fiscal Year 2017 and then 3.00% annually through Fiscal Year 2020, would be reduced under the Governor's proposed 2015-2016 budget; however; the City would be compensated by the Commonwealth for the revenue losses resulting from such reductions, as a result of the other proposed tax changes described below.

Real Estate Tax. Commencing in Fiscal Year 2017 under the Revised Twenty-Fourth Five-Year Plan, the City proposes to maintain the increase in the Real Estate Tax enacted for Fiscal Year 2016 in order to provide $50 million in additional revenue for the School District, resulting in an increase in the combined rate from 1.3400% in Fiscal Year 2015 to 1.3998% through Fiscal Year 2020.

In addition to wage and earnings tax relief and sales tax relief, the Governor's proposed 2015-2016 budget provides $87.6 million in property tax relief in Fiscal Year 2017, to be used to increase the amount of the homestead exemption from $30,000 to $56,650, the maximum allowed under Pennsylvania law. Also beginning in Fiscal Year 2017, the Governor's proposed 2015-2016 budget would reduce both the City and School District portion of the Real Estate Tax, resulting in a decrease in the combined rate from 1.4651% to 1.4633% through Fiscal Year 2020. The reduction would be funded annually with $1.7 million from the Commonwealth.

City Sales Tax. Beginning in Fiscal Year 2017, the Governor's proposed 2015-2016 budget would reduce the City Sales Tax from 2.0% to 1.4%, while broadening the categories of transactions that would be subject to the City Sales Tax. Revenue from the first 1.0% would continue to go to the City's General Fund, with the additional revenue generated by the base broadening mandated to be contributed to the Municipal Pension Fund.

Under the Governor's proposed 2015-2016 budget, the Commonwealth would compensate the City for the revenue loss resulting from the 0.6% reduction in the City Sales Tax, as well as for the loss of revenue relating to the 0.6% reduction that would otherwise have been realized by the City from broadening the categories of transactions that would be subject to the City Sales Tax. The reduction in the City Sales Tax, the base broadening and the compensation of the City by the Commonwealth would provide the expected funding for the School District, for the debt service during Fiscal Years 2017 and 2018 on obligations issued by the City for the benefit of the School District, and for contributions by the City to the Municipal Pension Fund.

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 January 2015, the City employed 27,831 full-time employees, representing approximately 4.2% of non-farm public and private employment in the City. Of these full-time public employees, the salaries of 21,015 were paid from the General Fund. Additional sources of funding for full-time public employees include the Grants 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
Fiscal Year 2011-2014 (Actual) and as of June 30, 2015 (Current Estimate)

	June 30, 2011	June 30, 2012	June 30, 2013	June 30, 2014	June 30, 2015[1]
General Fund					
Police	7,219	7,225	7,193	7,095	7,061
Fire	2,146	2,072	2,125	2,053	2,150
Courts	1,869	1,957	1,909	1,866	1,842
Prisons	2,166	2,144	2,248	2,268	2,286
Streets	1,689	1,682	1,690	1,684	1,664
Public Health	661	669	673	659	653
Human Services[2]	1,668	804	377	382	395
All Other	4,602	4,622	4,710	4,984	5,115
Total - General Fund	22,020	21,175	20,925	20,991	21,166
Other Funds	4,540	4,540	5,547	5,657	5,626
Total - All Funds	26,560	25,715	26,472	26,648	26,792

(1) Source: Fourth Quarter QCMR.
(2) Fiscal Years 2012-2015 reflect the transfer of the majority of DHS revenue and obligations from the General Fund to the Grants Revenue Fund.

Overview of City Employees

The wages and benefits of City employees vary not only by position, but also by whether the employees are represented by a union and, if so, which union. Employee wages and benefits may also be impacted by whether the employee is subject to the civil service system or exempt from those rules. Thus, City employees may be broken down into three major categories for purposes of understanding how their wages and benefits are determined: (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 January 2015, the City's 23,071 unionized employees, representing approximately 83% of the City's employees, were represented by the City's four municipal unions: (i) Fraternal Order of Police ("FOP") Lodge No. 5; (ii) International Association of Fire Fighters ("IAFF") Local 22; (iii) American Federation of State, County and Municipal Employees District Council 33 ("AFSCME DC 33"); and (iv) American Federation of State, County and Municipal Employees District Council 47 ("AFSCME DC 47").

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 2011 through 2016 are shown in the following table.

Table 17
General Fund Employee Benefit Expenditures
Fiscal Years 2011-2014 (Actual), 2015 (Current Estimate), and 2016 (Budget)
(Amounts in Millions of USD)

	2011	2012	2013	2014	2015[1]	2016[1]
Pension Contribution[2]	$485.3	$547.8	$618.9[3]	$646.4[3]	$576.1	$611.7
Health	343.6	379.4	363.2	409.4	386.4	411.5
Social Security	64.6	67.2	64.7	67.5	71.1	72.4
Other	73.6	72.0	72.3	70.8	78.1	76.6
Total	$967.1	$1,066.4	$1,119.1	$1,194.1	$1,111.7	$1,172.2

(1) Source: Revised Twenty-Fourth Five-Year Plan.
(2) Includes debt service on Pension Bonds (as defined herein) and the Commonwealth contributions to the Municipal Pension Fund. See Tables 28 and 29.
(3) Includes repayment of deferred contributions. See Table 28.

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, 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.

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.

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)	6,469	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. • 3.25% pay increase for Fiscal Years 2016 and 2017.	• Employees in Plan 87 hired before 1/1/10 pay 5% of salary • 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)	324	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.
			• 3.0% increase for Fiscal Year 2016.
			• 3.25% increase for Fiscal Year 2017.
			• Register of Wills employees receive same wage package as AFSCME DC 33.
				• Sheriff's Office:
				  • Employees in Plan 87 hired before 1/1/12 pay 30% of normal cost
				  • Employees hired on or after 1/1/12 elect to enter Plan 87 and pay 50% of normal cost or enter Plan 10
				• Register of Wills:
				  • Employees in Plan 87 hired before 1/1/12 pay 30% of normal cost
				  • Employees hired on or after 1/1/12 participate in Plan 10

IAFF Local 22	2,109	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. • 3.25% pay increase for Fiscal Year 2016. • Wage reopener for Fiscal Year 2017.	• Employees in Plan 87 hired before 7/2/12 pay 5% of salary • 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	7,973	Contract term from July 1, 2009 through June 30, 2016 ratified September 9, 2014	• 3.5% pay increase effective September 1, 2014. • 2.5% pay increase for Fiscal Year 2016.	• Employees in Plan 87 hired before 9/9/14 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 1% of pay by 1/1/16) • Employees hired on or after 9/9/14 may elect to enter Plan 87 and pay an additional 1% of pay over what others in Plan 87 pay or enter Plan 10

(1) From the Revised Twenty-Fourth Five-Year Plan as of January 2015.
(2) "Plan 87" and "Plan 10" referenced in this column are described in Table 19. The July 1, 2014 Valuation (as defined herein) indicates that as of July 1, 2014 there were nine active members in Plan 10. As Table 18 indicates, Plan 10 is mandatory for newly-hired employees of the Register of Wills and employees covered by the Correctional Officers arbitration award.

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	2,221	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. • 3.25% pay increase for Fiscal Years 2016 and 2017. • $600 equity adjustment to base wages on January 1, 2016.	• Employees in Plan 87 hired before 11/14/14 pay 30% of normal cost • Effective 11/14/14, the employee contribution for all current employees increased to no less than 50% of normal cost and the offset under Plan 67 for employees participating in social security was eliminated • Employees hired on or after 11/14/14 participate in Plan 10
AFSCME DC 47	3,480	Contract term from July 1, 2009 through June 30, 2017 ratified on March 5, 2014	• 3.5% pay increase effective April 4, 2014. • 2.5% pay increase for Fiscal Year 2016. • 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 1% of pay by 1/1/16) • 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
AFSCME DC 47 Local 810 Court Employees	495	Agreement ratified August 13, 2014 on economic terms for July 1, 2014 through June 30, 2016	• 2.5% pay increase for Fiscal Year 2015. • 2.5% pay increase for Fiscal Year 2016.	• 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 1% of pay by 1/1/16) • 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
Exempt and Non-Represented Employees	4,760	Changes for exempt and non-represented employees	• 2.5% pay increase effective October 1, 2012. • 3.5% exempt pay increase effective September 1, 2014. • 3.5% non-represented pay increase effective April 1, 2014. • 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 1% of pay by 1/1/16) • 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

(1) From the Revised Twenty-Fourth Five-Year Plan as of January 2015.

(2) "Plan 87" and "Plan 10" referenced in this column are described in Table 19. The July 1, 2014 Valuation (as defined herein) indicates that as of July 1, 2014 there were nine active members in Plan 10. As Table 18 indicates, Plan 10 is mandatory for newly-hired employees of the Register of Wills and employees covered by the Correctional Officers arbitration award.

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, 2014 Valuation.

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	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	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	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[(1)]	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 - **Defined Contribution** • City matches employee contributions at a 50% rate, with the total City match not to exceed 1.5% of compensation for each year • 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 • 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) 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.

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 2011-2014, the current estimate for Fiscal Year 2015, the budgeted amount for Fiscal Year 2016 and, with the exception of the Convention Center subsidy and vehicle leasing, excludes debt service.

Table 20
Purchase of Services in the General Fund
Fiscal Years 2011-2014 (Actual), 2015 (Current Estimate) and 2016 (Budget)
(Amounts in Millions of USD)[(1)]

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Current Estimate 2015	Budget 2016
Human Services[(2)]	448.2	78.2	67.5	76.3	81.6	76.8
Public Health	66.1	63.0	63.0	60.5	60.1	60.0
Public Property[(3)]	138.7	139.5	139.5	140.7	147.9	154.7
Streets[(4)]	51.0	45.7	40.5	48.3	47.5	48.8
Legal Services[(5)]	36.6	37.1	38.7	40.6	42.6	43.1
First Judicial District	27.9	24.1	16.5	15.8	10.7	10.7
Licenses & Inspections[(6)]	4.1	7.0	7.1	10.1	10.0	10.3
Supportive Housing[(7)]	30.2	30.4	34.2	36.9	36.6	36.9
Prisons	106.6	104.0	105.4	105.8	104.1	105.5
All Other[(8)]	131.0	142.1	154.4	159.1	180.6	285.9
Total	1,040.4	671.1	666.8	694.1	721.7	832.7

(1) Sources: For Fiscal Years 2011-2014, the City's Supplemental Report of Revenues & Obligations for such Fiscal Years. For the current estimate for Fiscal Year 2015 and the budgeted amount for Fiscal Year 2016, the Fiscal Year 2016 Adopted Budget.
(2) Includes payments for care of dependent and delinquent children. Fiscal Year 2011 was the last year that the full amount of revenue for DHS was deposited into the General Fund. The decrease in revenues and obligations from Fiscal Year 2011 to Fiscal Year 2012 is largely due to the transfer of the majority of DHS revenue and obligations to the Grants Revenue Fund.
(3) Includes payments for SEPTA, space rentals, and utilities.
(4) Includes solid waste disposal costs.
(5) Includes payments to the Defender Association to provide legal representation for indigents.
(6) Includes payments for demolition in Fiscal Year 2011 and Fiscal Year 2012.
(7) Includes homeless shelter and boarding home payments.
(8) Includes the Convention Center subsidy and payments for vehicle leasing.

Figures may not add up due to rounding.

City Payments to School District

In each Fiscal Year since Fiscal Year 1996, the City has made an annual grant of 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 2011-2014, the current estimate for Fiscal Year 2015 and the budgeted amount for Fiscal Year 2016.

Table 21
City Payments to School District
Fiscal Years 2011-2014 (Actual), 2015 (Current Estimate) and 2016 (Budget)
(Amounts in Millions of USD)[1]

	Actual 2011	Actual 2012	Actual 2013[2]	Actual 2014[3]	Current Estimate 2015	Budget 2016[4]
City Payments to School District	$38.6	$48.9	$68.9	$114.1	$69.1	$104.2

(1) Sources: For Fiscal Years 2011-2014, the City's CAFRs for such Fiscal Years. For the current estimate for Fiscal Year 2015 and the budgeted amount for Fiscal Year 2016, the Fiscal Year 2016 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.
(4) For Fiscal Year 2016, the Mayor's budget increased the City's payment to the School District by approximately $10 million to $79.2 million. The Fiscal Year 2016 Adopted Budget, as approved by the City Council, increased the City's payment by an additional $25 million to an aggregate amount of $104.2 million.

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 2014. 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 Fiscal Year 2016 Adopted Budget includes 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 reflected in Table 21 above. Both the $25 million and the $10 million will be collected by the City and then granted to the School District. Each year in the Revised Twenty-Fourth Five-Year Plan reflects these increases in tax revenues, as well as the related expense to the School District; therefore, this does not impact the City's General Fund balance.

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 2011-2014 and the current estimate for Fiscal Year 2015.

Table 22
City Payments to SEPTA
Fiscal Years 2011-2014 (Actual) and 2015 (Current Estimate)
(Amounts in Millions of USD)[1]

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Current Estimate 2015
City Payment to SEPTA	$65.9	$66.4	$65.2	$66.0	$70.4

(1) Sources: For Fiscal Years 2011-2014, the City's CAFRs for such Fiscal Years. For the current estimate for Fiscal Year 2015, the Revised Twenty-Fourth Five-Year Plan.

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 2016-2020 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 Revised Twenty-Fourth Five-Year Plan projects operating subsidy payments to SEPTA from the City will increase to $92.5 million by Fiscal Year 2020.

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 $5.7 billion as of July 1, 2014. In Fiscal Year 2014, the City's contribution to the Municipal Pension Fund was approximately $553.2 million, of which the General Fund's share (including the Commonwealth contribution) was $435.4 million. See Table 28 below. 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 8% of the City's General Fund budget to approximately 15% of the General Fund budget from Fiscal Years 2005 to 2014. See Table 30 below. As reflected in the Funded Ratio chart following Table 27, the funded ratio of the Municipal Pension Plan was 47.7% on July 1, 1995 (at which time the UAL was approximately $2.5 billion), and was 45.8% on July 1, 2014.

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 23 and the Funded Ratio chart below.

- A reduction in the assumed rate of return, from 9.00% in 2004 to 7.80% effective July 1, 2014. Although the gradual reductions in the assumed rates of return reflected in Table 23 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 10,700. 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 25 below.

- 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, 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. See Table 23 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 deferrals for Fiscal Years 2010 and 2011 described below).

- Negotiating recent collective bargaining agreements by which additional contributions are being made (and will be made) by certain current (and 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 $4.9 billion as of June 30, 2014. The Municipal Pension Plan has approximately 27,000 members who make contributions to the plan, and provides benefits to approximately 38,000 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 28 below. 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 25 below. An additional source of funding in the future is expected to be 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 75 personnel, administers the day-to-day activities of the retirement system, providing services to approximately 65,000 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."

Membership. Total membership in the Municipal Pension Plan decreased by 0.2%, or 64,958 to 64,822 members, from July 1, 2013 to July 1, 2014, including an increase of 1.0% in active members from 26,788 to 27,065 (who were contributing to the Municipal Pension Fund). Of the 64,822 members, 37,757 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, 2014 Actuarial Valuation Report (the "July 1, 2014 Valuation") and includes as of July 1, 2014, 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. (*Dumbrowski 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 28 below.

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 28 below.

GASB 27; Annual Required Contribution; City Funding Policy. Governmental Accounting Standards Board ("GASB") Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" ("GASB 27"), applies 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 defines 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 does not establish funding requirements for the City but rather is an accounting and financial reporting standard. GASB 68 will not require the calculation of an ARC but will 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 28 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. The City's financial statements have reflected as the ARC for GASB 27 purposes the amounts required under the City Funding Policy. Because the City has been using the City Funding Policy amounts as the ARC for financial reporting purposes under GASB 27, while funding at the lower MMO amounts, the aggregate differences have resulted in a Net Pension Obligation ("NPO") being reported. See Note IV.1 to the City's audited Financial Statements for the Fiscal Year ended June 30, 2014, which sets forth the City's ARC for such year. The City could have used the MMO as the ARC for financial reporting purposes under GASB 27. Had the City done so, the MMO amounts paid would have equaled or exceeded the ARC, and thus no NPO would have resulted. 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. For GASB 27 purposes, these funds were treated as additional contributions. See "– Annual Contributions – Pension Bonds" below.

UAL and its Calculation

According to the July 1, 2014 Valuation, the funded ratio (the valuation of assets available for benefits to total actuarial liability) of the Municipal Pension Fund as of July 1, 2014 was 45.8% and the Municipal Pension Fund had an unfunded actuarial liability ("UAL") of $5.707 billion. The UAL is the difference between total actuarial liability ($10.522 billion as of July 1, 2014) and the actuarial value of assets ($4.815 billion as of July 1, 2014).

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, 2014 Valuation was 7.80% 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 7.85%. See Table 23 for the assumed rates of return for Fiscal Years 2005 to 2014. The 7.85% was used to establish the MMO payment for Fiscal Year 2015; 7.80% will be used to establish the MMO payment for Fiscal Year 2016.

Other key actuarial assumptions in the July 1, 2014 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, 2014, was approximately 99% 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: (1) 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); (2) assumption changes be amortized over 15 years beginning July 1, 2010 (prior to July 1, 2010, assumption changes were amortized over 20 years); (3) plan changes for active members be amortized over 10 years; (4) plan changes for inactive members be amortized over one year; and (5) 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 in 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, 2014, there were "excess earnings" as defined to be credited to the PAF of approximately $61.2 million available for transfer and distribution. 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.

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

Rates of Return. The following table sets forth for the Fiscal Years 2005-2014 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, 2014, were 12.01% and 7.38%, respectively, on a market value basis.

Table 23
Municipal Pension Fund
Annual Rates of Return

Year Ending June 30,	Market Value	Actuarial Value[1]	Assumed Rate of Return
2005	9.9%	1.8%	8.75%
2006	11.3	6.1	8.75
2007	17.0	10.7	8.75
2008	-4.5	10.1	8.75
2009	-19.9	-9.3	8.75
2010	13.8	12.9	8.25
2011	19.4	9.9	8.15
2012	0.2	2.4	8.10
2013	10.9	5.1	7.95
2014	15.7	4.8	7.85

Source: July 1, 2014 Valuation for Market and Actuarial Value annual rates of return; annual Actuarial Valuation Reports prepared by Mercer Human Resources Consulting for Fiscal Years 2005-2006 and Cheiron for Fiscal Years 2007-2014 for Assumed Rates of Return.

(1) Net of PAF. See "Pension Adjustment Fund" above. The actuarial values for 2005-2008 reflect a five-year smoothing; for 2009-2014, a ten-year smoothing.

Asset Values. The following table sets forth as of the July 1 actuarial valuation date for the years 2005-2014 the actuarial and market values of assets in the Municipal Pension Fund and the actuarial value as a percentage of market value.

Table 24
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
2005	$4,159.5	$4,100.6	101.4%
2006	4,168.5	4,315.6	96.6
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

Source: July 1, 2014 Valuation for Actuarial Value of Assets; 2005-2014 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, 2014 equaled $62,439,223. The Actuarial Value of Assets excludes that portion of the Municipal Pension Fund that is allocated to the PAF. The actuarial values for 2005-2008 reflect a five-year smoothing; for 2009-2014, 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 28 below.

Changes in Plan Net Position. The following table sets forth for the Fiscal Years 2010-2014, 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 and not made from the Municipal Pension Fund, and therefore are not included in Table 25. 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 25, 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 28 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 vary from 5.00% to 6.00% for police and fire employees, and from 1.95% to 3.75% for municipal employees. However, future member contribution rates for nearly all municipal employees increased by 0.5% of pay on January 1, 2015 and are scheduled to increase by an additional 0.5% of pay commencing January 1, 2016.

Table 25
Changes in Net Position of the Municipal Pension Fund
Fiscal Years 2010-2014
(Amounts in Thousands of USD)

	2010	2011	2012	2013	2014
Beginning Net Assets					
(Market Value)[1]	$3,375,767	$3,501,602	$4,030,216	$3,922,817	$4,445,224
Additions					
- Member Contributions	51,570	52,706	49,979	49,614	53,722
- City Contributions[2,3]	312,556	470,155	556,031	781,823	553,179
- Investment Income[4]	455,793	701,225	13,297	442,667	677,380
- Miscellaneous Income[5]	(1,368)	(385)	1,224	3,134	4,089
Total	$818,551	$1,223,701	620,531	$1,277,238	$1,288,370
Deductions					
- Benefits and Refunds	(684,642)	(687,034)	(712,684)	(746,490)	(808,597)
- Administration	(8,074)	(8,053)	(15,246)[6]	(8,341)	(8,292)
Total	$ (692,716)	$ (695,087)	$ (727,930)	$ (754,831)	($816,889)
Ending Net Assets					
(Market Value)[7]	$3,501,602	$4,030,216	$ 3,922,817	$4,445,224	$4,916,705

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 28 below.

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

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

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

(6) The $15,246 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 $8,482,639.

(7) For Fiscal Year 2010, does not include the $150 million contribution receivable and for Fiscal Years 2011 and 2012 does not include the $230 million total contribution receivable, which was paid back and is included in Fiscal Year 2013.

Funded Status of the Municipal Pension Fund

The following two tables set forth as of the July 1 actuarial valuation date for the years 2005-2014, 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 26
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]
2005	$4,159.5	$7,851.5	$3,692.0	53.0%	$1,270.7	290.5%
2006	4,168.5	8,083.7	3,915.2	51.6	1,319.4	296.7
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

Source: July 1, 2014 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.

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

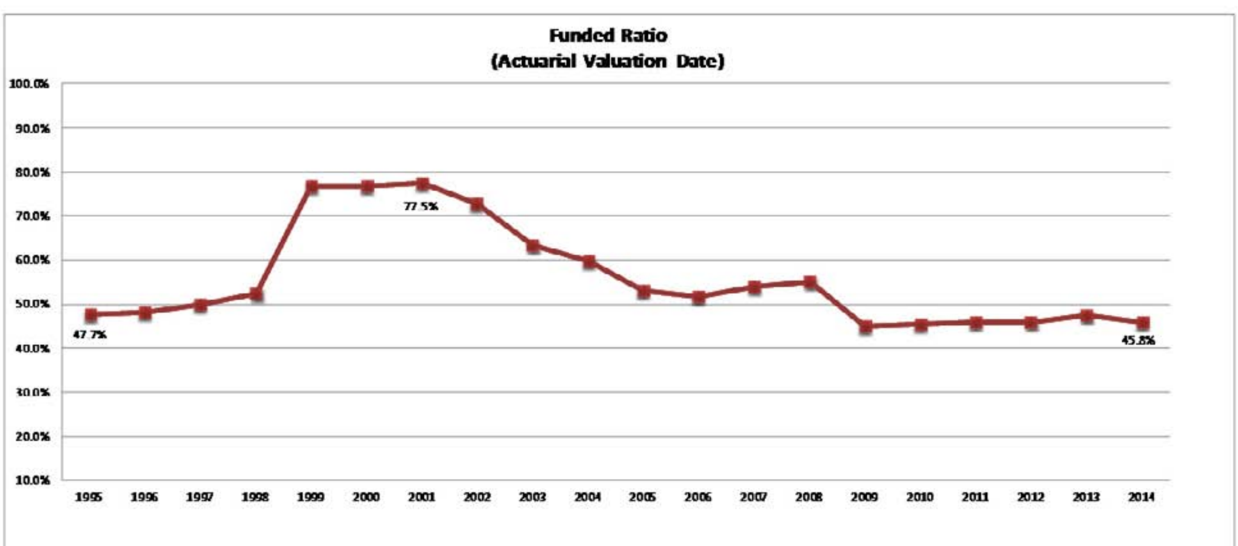
Actuarial Valuation Date (July 1)	Market Value of Net Assets[(1)] (a)	Actuarial Liability (b)	UAL (Market Value) (b-a)	Funded Ratio (Market Value) (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll (Market Value) [(b-a)/c]
2005	$4,100.6	$7,851.5	$3,750.9	52.2%	$1,270.7	295.2%
2006	4,315.6	8,083.7	3,768.1	53.4	1,319.4	285.6
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[(2)]	10,521.8	5,667.6	46.1	1,495.4	379.0

Source: 2005-2014 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, 2014 equaled $62,439,223.

The following chart reflects the funded ratios, using the actuarial value of assets, for the period 1995 – 2014.



Annual Contributions

Annual Municipal Pension Contributions

Table 28 shows the components of the City's annual pension contributions to the Municipal Pension Fund for the Fiscal Years 2005-2014.

Table 28
Total Contribution to Municipal Pension Fund
(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)
2005	209.0	49.8	258.8	22.2	9.8	9.6	8.6	0.0	309.0	$294.0		105.1%
2006	218.8	57.3	276.1	24.4	10.9	10.0	10.4	0.0	331.8	306.9		108.1
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

(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 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

Table 29 shows the components of the City's annual debt service payments on the Pension Bonds for the Fiscal Years 2005-2014.

Table 29
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
2005	66.4	6.4	2.7	0.5	1.2	77.2
2006	70.4	6.9	2.9	0.5	1.3	82.0
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

(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 30 shows the annual pension costs of the General Fund for the Fiscal Years 2005-2014, being the sum of the General Fund Contribution to the Municipal Pension Fund (column (A) in Table 28 above) and the General Fund debt service payments on Pension Bonds (Table 29 above).

Table 30
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
2005	209.0	66.4	275.4	3,386.34	8.13%
2006	218.8	70.4	289.2	3,426.05	8.44%
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%

(1) Does not include Commonwealth contribution. See Table 28.

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

Table 31
Annual City Contribution as % of Covered Employee Payroll
(Dollar Amounts in Thousands of USD)

Fiscal Year	Annual City Contribution	Fiscal Year Covered Employee Payroll	ACC as % of Payroll
2005	$299,266[(1)]	$1,270,700	23.55%
2006	331,765	1,319,400	25.15
2007	432,267	1,351,826	31.98
2008	426,934	1,461,640	29.21
2009	455,389	1,462,451	31.14
2010	312,556	1,422,987	21.96
2011	470,155	1,410,207	33.34
2012	556,031	1,387,086	40.06
2013	781,823	1,423,417	54.93
2014	553,179	1,556,660	35.54

Source: Municipal Pension Fund Financial Statements, June 30, 2014.

(1) There is a minor inconsistency for Fiscal Year 2005 between the audited financial statements of the Municipal Pension Fund and the City's internal records, which as reflected in Table 28, show an Annual City Contribution of approximately $309 million.

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 28 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.

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 2034 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.**

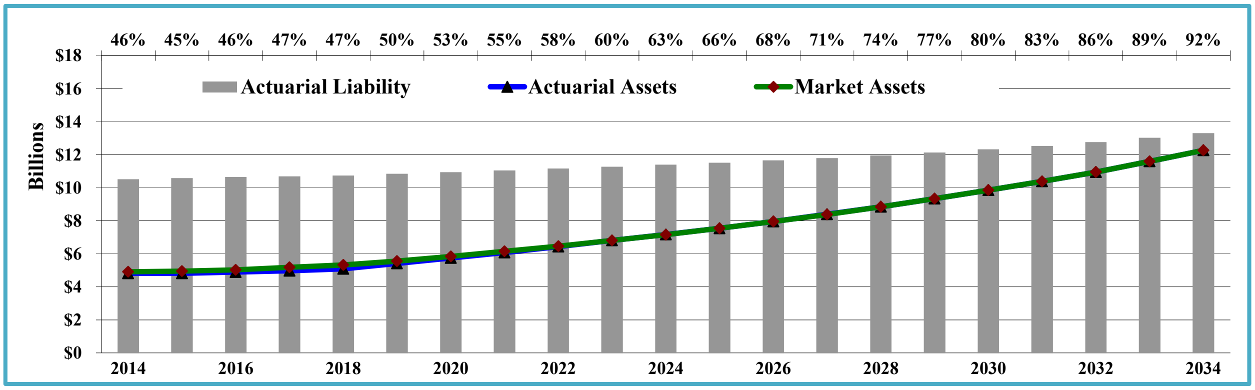
The projections are on the basis that all assumptions in the July 1, 2014 Valuation are exactly realized and the City makes all future MMO payments on schedule as required by Pennsylvania law, and must be understood in the context of the assumptions, methods and benefits in effect as described in the July 1, 2014 Valuation. Included among such assumptions are: (i) the rates of return for the Municipal Pension Fund over the projection period will equal 7.80% annually, (ii) MMO contributions will be made each year, and (iii) the provisions of Act 205 as amended by Act 44 will remain in force during the projection period. See the July 1, 2014 Valuation for a further discussion of the assumptions and methodologies used by the Actuary in preparing the July 1, 2014 Valuation and the following projections, all of which should be carefully considered in reviewing the projections. The July 1, 2014 Valuation is available for review on or downloading from the City's Investor Website. In addition, the table and charts below reflect 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. 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."

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

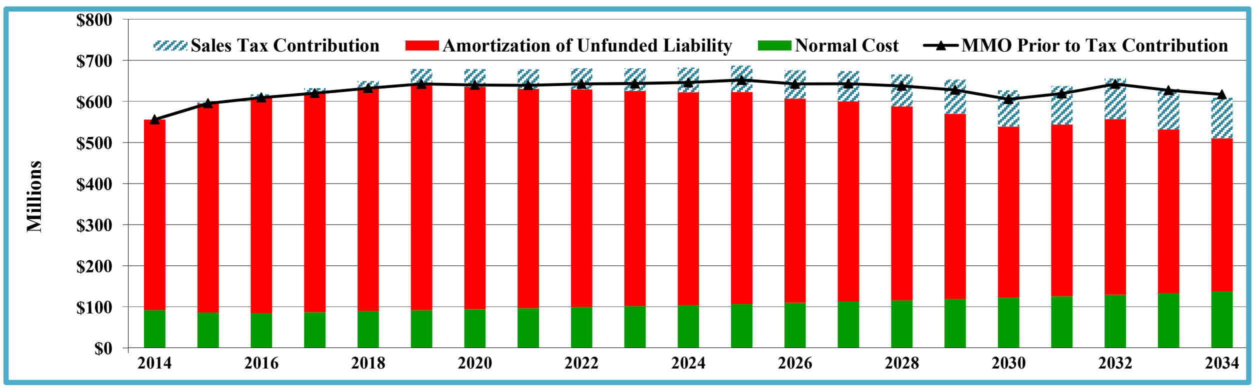
Fiscal Year End	MMO	Sales Tax Contribution	Actuarial Value of Assets	Actuarial Liability	UAL	Funded Ratio
2015	$ 556.0	$ 0.0	$ 4,814.9	$ 10,521.8	$ 5,706.9	45.8%
2016	595.0	2.8	4,815.5	10,584.8	5,769.3	45.5%
2017	609.4	7.8	4,900.0	10,640.2	5,740.2	46.1%
2018	619.5	13.2	4,976.2	10,689.7	5,713.5	46.6%
2019	630.9	18.6	5,085.4	10,733.2	5,647.7	47.4%
2020	639.9	38.9	5,410.4	10,836.9	5,426.5	49.9%

Twenty-Year Projections.

Funded Ratio Chart:



MMO Contribution Chart:



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 32 below.

Table 32
Annual OPEB Payment
(Amounts in Thousands of USD)

Fiscal Year ended June 30,	Annual OPEB Payment
2010	$71,693
2011	65,533
2012	76,344
2013	57,096
2014	67,100

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, 2013, the date of the most recent actuarial valuation, the UAL for the City's OPEB was $1.7 billion, the covered annual payroll was $1.4 billion, and the ratio of UAL to the covered payroll was 120.2%. See Note IV.3 to the City's audited Financial Statements for the Fiscal Year ended June 30, 2014.

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, 2015, the PGW Pension Plan membership total was 3,800, comprised of (i) 2,526 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and (ii) 1,274 participants, of which 1,003 were vested and 271 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. 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. As such, the payment amounts are subject to the approval of the PUC. To date, the PUC has approved the amounts requested that are allocable to pension payments. Payments to beneficiaries of the PGW Pension Plan are made by PGW through its payroll system. The financial statements for the PGW Pension Plan for the fiscal year ended June 30, 2014, show an amount due to PGW of approximately $5.3 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 (being the amount also paid) for the last five PGW Fiscal Years. PGW has been using a 20-year open amortization period (and the payments in Table 33 are on the basis of a 20-year open amortization), but is considering whether to adopt a 30-year closed amortization period. 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 33
PGW Pension Payments
(Dollar Amounts in Thousands of USD)

Fiscal Year ended August 31,	Normal Cost	Amortization Payment	Annual Required Contribution (amount paid)[1]	Payments to Beneficiaries
2010	$8,292	$16,341	$24,633	$35,722
2011	8,499	14,098	22,597	38,232
2012	8,171	15,801	23,972	40,122
2013	8,782	14,832	23,614	41,614
2014	8,533	15,988	24,521	43,168
2015(est.)	9,856	12,130	21,986	47,969[2]

(1) As described above, PGW does not make a net cash contribution to the PGW Pension Plan, but rather pays beneficiaries through its payroll system, and then is reimbursed by the Plan.

(2) Reflects actual payments through July 2015 plus an estimated amount for August 2015.

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

Table 34
Schedule of Pension Funding Progress
(Dollar Amounts in Thousands of USD)

Actuarial valuation date	Actuarial value of assets	Actuarial liability	UAL	Funded ratio
9/1/2011	$421,949	$572,190	$150,241	73.74%
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	515,287	706,704	191,417	72.91

The current significant actuarial assumptions for the PGW Pension Plan are (i) investment return rate of 7.65% 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. The investment return for the period September 1, 2014 – June 30, 2015 was 2.99% (on a non-annualized basis), and for the period July 1, 2014 – June 30, 2015 was 4.57%.

The change in the actuarial value of assets from approximately $514.9 million (September 1, 2014) to approximately $515.3 million (July 1, 2015) reflects receipts, including employer contribution, employee contributions, and investment return, of approximately $40.1 million and disbursements, including benefit payments, refunds, and administrative expenses of approximately $39.8 million.

The increase in the UAL from $129.0 million at September 1, 2014 to $191.4 million at July 1, 2015 is the product of a number of factors, including: (i) the number of retirees who commenced benefits earlier than had been expected under the prior assumptions, (ii) the change in the discount rate from 7.95% to 7.65%, (iii) investment returns lower than anticipated, and (iv) the use of a new mortality table and a new scale for projections of future mortality improvements, which recognize longer life spans for workers and retirees.

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). Prior Actuarial Reports were prepared on the basis of a September 1 – August 31 plan year, while the most recent Actuarial Valuation Report is for the plan year July 1, 2015 – June 30, 2016. This is reflected in Table 34 above.

The PGW Pension Plan actuary prepared a separate actuarial valuation report ("GASB 67 Report") for the fiscal year ending June 30, 2015, 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, 2015, an unfunded liability of approximately $235.3 million (rather than the approximately $191.4 million reflected in Table 34), which results in a funded ratio of 68.65%. In addition, that report provides an interest rate sensitivity, which shows that were the investment rate to be 6.65% (1% lower than the assumed investment rate), the unfunded liability would be approximately $322.2 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, 2015 – June 30, 2016." The charts show 10-year projections, using both the current amortization method (20 year, open) and the alternative amortization method (30 year, fixed) under consideration. 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 35
Schedule of Prospective Funded Status (20 Year Open Amortization)
(Dollar Amounts in Thousands of USD)

Actuarial Valuation Date (July 1)	Market Value of Assets	Actuarial Accrued Liability	UAL	Contribution	Funded Ratio
2015	$515,287	$706,704	$191,417	$26,476	72.91%
2016	529,269	717,666	188,396	26,131	73.75%
2017	543,175	727,092	183,917	25,735	74.71%
2018	556,774	735,975	179,200	25,162	75.65%
2019	569,645	744,361	174,716	24,672	76.53%
2020	581,781	752,606	170,826	24,111	77.30%
2021	592,936	759,992	167,056	23,418	78.02%
2022	602,971	765,489	162,518	22,657	78.77%
2023	611,704	769,438	157,734	21,887	79.50%
2024	619,048	772,467	153,419	20,807	80.14%

Table 36
Schedule of Prospective Funded Status (30 Year Closed Amortization)
(Dollar Amounts in Thousands of USD)

Actuarial Valuation Date (July 1)	Market Value of Assets	Actuarial Accrued Liability	UAL	Contribution	Funded Ratio
2015	$515,287	$706,704	$191,417	$24,020	72.91%
2016	526,719	717,666	190,946	24,075	73.39%
2017	538,295	727,092	188,797	24,092	74.03%
2018	549,816	735,975	186,159	23,923	74.71%
2019	560,868	744,361	183,493	23,828	75.35%
2020	571,455	752,606	181,151	23,645	75.93%
2021	581,337	759,992	178,655	23,323	76.49%
2022	590,386	765,489	175,103	22,929	77.13%
2023	598,439	769,438	170,999	22,517	77.78%
2024	605,422	772,467	167,045	21,780	78.38%

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 2014 CAFR.

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 Rider"), 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. PGW is currently in settlement talks with the PUC, which, among other things, involve the continued funding of OPEB liabilities through the OPEB Rider. PGW expects the OPEB Rider to continue past August 31, 2015 and that the deposits related thereto will total $18.5 million annually.

Table 37 provides detail of actual PGW OPEB payments for the last five PGW Fiscal Years and projected PGW OPEB payments for PGW Fiscal Years 2015-2020.

Table 37
PGW OPEB Payments
(Amounts in Millions of USD)

	Fiscal Year ended August 31,	Healthcare	Life Insurance	OPEB Trust	Total
Actual					
	2010	$20.6	$1.1	$0.0	$21.7
	2011	21.8	1.4	18.5	41.7
	2012	24.5	1.5	18.5	44.5
	2013	22.2	1.5	18.5	42.2
	2014	24.3	1.6	18.5	44.4
Projections					
	2015	24.3	1.7	18.5	44.5
	2016	29.3	1.7	18.5	49.5
	2017	31.9	1.7	18.5	52.1
	2018	34.5	1.7	18.5	54.7
	2019	37.1	1.7	18.5	57.3
	2020	39.7	1.7	18.5	59.9

Table 38 is the schedule of PGW OPEB funding progress, as of the actuarial valuation date of August 31 for 2011-2014.

Table 38
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
2011	$17,886	$485,722	$467,836	3.68%
2012	38,860	443,982	405,122	8.75
2013	61,796	436,527	374,731	14.16
2014	90,838	450,289	359,451	20.17

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 2014 CAFR.

CITY CASH MANAGEMENT AND INVESTMENT POLICIES

General Fund Cash Flow

Due to the fact that the receipt of revenues into the General Fund generally lag 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 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 August 5, 2015, which mature on June 30, 2016.

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 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. In accordance with 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 per the related bond documents and the investment practice is guided by administrative direction of the City Treasurer per the Investment Committee and the Investment Policy (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 August 1, 2015, the Constitutional debt limitation for Tax-Supported Debt was approximately $4,288,697,000. The total amount of authorized debt applicable to the debt limit was $1,685,455,000, including $724,949,000 of authorized but unissued debt, leaving a legal debt margin of $2,603,242,000. Based on the foregoing figures, the calculation of the legal debt margin is as follows:

Table 39
General Obligation Debt
August 1, 2015
(Amounts in Thousands of USD)

Authorized, issued and outstanding	$1,322,165
Authorized and unissued	724,949
Total	$2,047,114
Less: Self-Supporting Debt	(353,484)
Less: Serial bonds maturing within a year	(8,175)
Total amount of authorized debt applicable to debt limit	1,685,455
Legal debt limit	4,288,697
Legal debt margin	$2,603,242

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 $4.289 billion Constitutional debt limit calculation includes two years of property values certified under the City's AVI program, and eight 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 39, the Constitutional debt limit is estimated to be $14.473 billion by 2024.

The City is also empowered by statute to issue revenue bonds and, as of July 31, 2015, had outstanding $1,984,578,000 aggregate principal amount of Water and Wastewater Revenue Bonds ("Water Bonds"), $993,020,000 aggregate principal amount of Gas Works Revenue Bonds, and $1,193,915,000 aggregate principal amount of Airport Revenue Bonds. As of July 31, 2015, the principal amount of PICA bonds outstanding was $315,955,000. The City has enacted an ordinance authorizing the total issuance of approximately $120 million and $350 million aggregate principal amount in commercial paper for PGW and the Division of Aviation, respectively.

Short-Term Debt

The City issued $175 million of tax and revenue anticipation notes on August 5, 2015, which mature on June 30, 2016. See "CITY CASH MANAGEMENT AND INVESTMENT POLICIES – General Fund Cash Flow."

Long-Term Debt

The table below presents a synopsis of the bonded debt of the City and its component units as of the date indicated. Of the total balance of the City's general obligation bonds issued and outstanding as of July 31, 2015, approximately 30% is scheduled to mature within five Fiscal Years and approximately 57% is scheduled to mature within ten Fiscal Years. When PICA's outstanding bonds are included with the City's general obligation bonds, approximately 64% is scheduled to mature within ten Fiscal Years.

Table 40
Bonded Debt – City of Philadelphia and Component Units
as of July 31, 2015
(Amounts in Thousands of USD)[1], [2]

General Obligation Debt and PICA Bonds				
General Obligation Bonds		$1,363,295		
PICA Bonds		315,955		
Subtotal: General Obligation Debt and PICA Bonds			$1,679,250	
Other General Fund-Supported Debt[3]				
Philadelphia Municipal Authority				
Criminal Justice Center	$68,365			
Juvenile Justice Center	91,970			
Public Safety Campus	65,155			
Fleet Management Equipment Lease	12,836			
Energy Conservation	11,295			
		249,621		
Philadelphia Authority for Industrial Development				
Pension capital appreciation bonds	$604,664			
Pension fixed rate bonds	761,655			
Stadiums	289,900			
Library	6,655			
Cultural and Commercial Corridor	108,085			
One Parkway	37,010			
Philadelphia School District	43,280			
		1,851,249		
Parking Authority		13,020		
Redevelopment Authority		190,710		
Subtotal: Other General Fund-Supported Debt			$2,304,600	
Revenue Bonds				
Water Fund		1,984,578		
Aviation Fund		1,193,915		
Gas Works		993,020		
Subtotal: Revenue Bonds			$4,171,513	
Grand Total				**$8,155,364**

(1) Unaudited; figures may not add up 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, 2014, see the Fiscal Year 2014 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 July 31, 2015.

Table 41
City of Philadelphia
Annual Debt Service on General Fund-Supported Debt
(as of June 30, 2015)
(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
2016	$59.18	$64.78	$123.95	$101.86	$142.36	$244.21	$161.03	$207.13	$368.17
2017	62.09	64.76	126.85	101.03	142.00	243.03	163.11	206.76	369.88
2018	64.81	61.56	126.36	107.84	141.16	249.00	172.64	202.72	375.36
2019	67.99	58.26	126.24	74.66	140.37	215.03	142.65	198.62	341.27
2020	69.90	54.86	124.76	65.63	140.18	205.81	135.53	195.04	330.57
2021	62.91	51.62	114.52	80.88	125.01	205.89	143.78	176.63	320.42
2022	65.71	48.47	114.18	78.72	127.19	205.91	144.43	175.66	320.08
2023	70.05	45.01	115.06	116.17	89.73	205.90	186.21	134.75	320.96
2024	73.57	41.31	114.88	114.97	89.70	204.67	188.54	131.01	319.55
2025	77.19	37.46	114.64	119.47	85.21	204.68	196.66	122.67	319.32
2026	73.53	33.64	107.16	135.14	68.72	203.86	208.66	102.36	311.02
2027	77.07	29.80	106.87	160.36	45.64	205.99	237.42	75.44	312.86
2028	81.32	25.94	107.26	165.55	36.34	201.89	246.87	62.28	309.15
2029	55.47	22.74	78.20	277.79	19.34	297.12	333.25	42.08	375.33
2030	70.70	19.72	90.42	54.00	9.52	63.51	124.70	29.24	153.93
2031	75.00	16.19	91.18	56.52	7.01	63.53	131.52	23.19	154.71
2032	78.82	12.45	91.26	16.03	4.89	20.92	94.85	17.34	112.18
2033	43.22	9.37	52.59	7.40	4.29	11.69	50.61	13.67	64.28
2034	30.41	7.40	37.80	7.81	3.88	11.69	38.22	11.28	49.49
2035	15.55	6.15	21.69	8.26	3.43	11.69	23.80	9.58	33.38
2036	16.42	5.27	21.69	8.73	2.96	11.69	25.15	8.23	33.38
2037	17.33	4.36	21.69	9.23	2.46	11.69	26.56	6.82	33.38
2038	18.31	3.38	21.69	9.76	1.93	11.69	28.07	5.31	33.37
2039	19.37	2.32	21.69	10.33	1.37	11.69	29.70	3.69	33.38
2040	8.52	1.50	10.02	3.31	0.77	4.08	11.83	2.26	14.09
2041	9.10	0.93	10.02	3.45	0.62	4.07	12.55	1.55	14.10
2042	9.71	0.32	10.02	3.60	0.48	4.07	13.30	0.79	14.09
2043	0.00	0.00	0.00	3.75	0.33	4.08	3.75	0.33	4.08
2044	0.00	0.00	0.00	3.91	0.17	4.08	3.91	0.17	4.08
TOTAL	**$1,373.17**	**$729.56**	**$2,102.72**	**$1,906.10**	**$1,437.04**	**$3,343.14**	**$3,279.26**	**$2,166.60**	**$5,445.87**

(1) Does not include letter of credit fees.

(2) Includes both Tax-Supported Debt and Self-Supporting Debt. See "– General." Does not include PICA Bonds. Reflects the refunding of a portion of the City's outstanding General Obligation Bonds, Series 2006, Series 2008B, and Series 2011, and includes debt service on the City's $138,795,000 General Obligation Refunding Bonds, Series 2015A, issued on July 8, 2015.

(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 40. 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 $1,339,375 for Fiscal Year 2016.

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 2015 was $26.9 million. The budgeted amount and current estimate for Fiscal Year 2016 is $30.3 million.

The City expects to enter 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. Such transaction is expected to close in the first quarter of Fiscal Year 2016.

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 July 31, 2015, two series of bonds remain outstanding: (i) Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2009, in the outstanding aggregate principal amount of $190,120,000 and having a final stated maturity date of June 15, 2023, and (ii) Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2010, in the outstanding aggregate principal amount of $125,835,000 and having a final stated maturity date of June 15, 2022. The proceeds of the PICA Bonds were used to (a) 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, (b) refund other PICA Bonds, and (c) 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.

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 each of the Fiscal Years 2011 through 2014, the budgeted amount and current estimate for Fiscal Year 2015, and the budgeted amount for Fiscal Year 2016 are set forth below. The current estimates for Fiscal Year 2015 are from the Fourth Quarter QCMR.

Table 42
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)

Fiscal Year	PICA Tax	PICA Annual Debt Service and Investment Expenses	Net taxes remitted to the City
2011 (Actual)	358.7	64.9	293.8
2012 (Actual)	357.5	62.3	295.2
2013 (Actual)	376.5	62.5	314.0
2014 (Actual)	384.5	65.8	318.7
2015 (Budget)	403.7	65.7	338.0
2015 (Current Estimate)	403.7	65.7	338.0
2016 (Budget)	419.0	65.5	353.5

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 43
Summary of Swap Information for General Fund-Supported Debt as of July 31, 2015

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)]	($24,143,431)	($1,370,737)	($18,958,054)	($17,678,618)	($6,318,403)	($5,924,325)
Additional Termination Events	For Dealer: Rating change below BBB- or Baa3	For Dealer: Rating change below BBB- or Baa3	For Dealer: Rating change below BBB- or Baa3	For Dealer: Rating change below BBB- or Baa3	For Dealer: Rating change below BBB- or Baa3	For Dealer: Rating change below BBB- or Baa3
	For City: Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)	For PAID: Rating change below BBB- or Baa3 upon insurer event.	For PAID: Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)	For PAID: Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)	For PAID: Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)	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 July 31, 2015, and are shown from the City's perspective and include accrued interest.

(5) On July 21, 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 21, 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 MLCS.

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 2014 CAFR. In addition, PICA has entered into swaps, which are detailed in the Fiscal Year 2014 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 44
Summary of Letter of Credit Agreements for General Fund-Supported Debt as of July 31, 2015

Variable Rate Bond Series	Amount Outstanding	Bond Maturity Date	Provider	Expiration Date	Rating Thresholds [1]
General Obligation Bonds, Series 2009B	$100,000,000	August 1, 2031	Bank of New York Mellon	March 7, 2016	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 23, 2017	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.

Recent and Upcoming Financings

Recent Financings. The following is a list of financings that the City has entered into since January 1, 2014:

- On August 18, 2015, the City, together with PGW, issued $261,770,000 of its Gas Works Revenue Refunding Bonds to refund certain outstanding series of such bonds.
- On August 5, 2015, the City issued $175,000,000 of its tax and revenue anticipation notes to finance certain cash flow needs of the City. Such issue matures on June 30, 2016.
- In July 2015, the City issued $138,795,000 in General Obligation Refunding Bonds.
- In April 2015, the City, together with the Water Department, issued $417,560,000 in Water Bonds to finance capital improvements to the Water and Wastewater Systems and refund certain outstanding Water Bonds.

- In April 2015, the City, through PRA, issued $111,515,000 in City Service Agreement Bonds to refund certain outstanding PRA bonds.

- In November 2014, the City issued $130,000,000 of tax and revenue anticipation notes, which matured on June 30, 2015.

- In October 2014, the City, through PAID, issued $57,515,000 in City Service Agreement Bonds for the benefit of the School District and to refund the $27,275,000 in City Service Agreement Bonds that were issued for the benefit of the School District in June 2014.

- In August 2014, the City, together with PGW, authorized its $150,000,000 Gas Works Revenue Notes, CP Series G and its $120,000,000 Gas Works Revenue Capital Project Commercial Paper Notes, which are each secured by a dual-purpose letter of credit for up to $120,000,000.

- In July 2014, the City, through PAID, issued $56,655,000 of Lease Revenue Refunding Bonds, the proceeds of which were used to refund bonds previously issued to finance a portion of the costs of stadiums used by the Phillies and the Eagles.

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

- In April 2014, the City, through PMA, issued City Service Agreement Bonds in the aggregate principal amount of $65,155,000.

- In February 2014, the City issued General Obligation Refunding Bonds in the amount of $154,275,000.

- In January 2014, the City, together with the Water Department, issued $123,170,000 in Water Bonds.

Upcoming Financings. The following is a list of planned financings for bonds and notes that the City expects to issue in calendar year 2015:

- The City expects to issue general obligation bonds to finance certain capital projects.

- The City, through PAID, expects to issue City Service Agreement Bonds to refund certain outstanding series of such bonds.

- The City, through PMA, expects to issue City Service Agreement Bonds to finance certain capital projects.

CITY CAPITAL IMPROVEMENT PROGRAM

As part of the annual budget process, the Mayor submits for approval a six-year capital improvement program to City Council, together with the proposed operating budget. Table 45 shows the City's historical expenditures for Fiscal Years 2012-2015 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.

Table 45
Historical Expenditures for Certain Capital Purposes
Fiscal Years 2012-2015

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

Table 46 shows the City's historical expenditures for Fiscal Years 2012-2015 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.

Table 46
Historical Expenditures for Certain Capital Purposes
(General Obligation Bond Proceeds Only)
Fiscal Years 2012-2015

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

The Capital Improvement Program for Fiscal Years 2016-2021 was submitted to City Council on March 5, 2015, approved by City Council on June 18, 2015, and signed by the Mayor on June 18, 2015. The Capital Improvement Program is included as part of the Revised Twenty-Fourth Five-Year Plan and contemplates a total budget of $8,964,847,000. In the Capital Improvement Program, $3,574,338,000 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 Capital Improvement Program.

Table 47
Capital Improvement Program for Fiscal Years 2016-2021
(Amounts in Thousands of USD)

	2016	2017	2018	2019	2020	2021	2016-2021
City Funds – Tax Supported							
Carried-Forward Loans	$326,185	$0	$0	$0	$0	$0	**$326,185**
Operating Revenue	24,764	4,014	2,514	2,514	2,514	2,514	**38,834**
New Loans	149,963	164,331	134,592	130,675	127,011	127,201	**833,773**
Pre-financed Loans	9,599	0	0	0	0	0	**9,599**
PICA Pre-financed Loans	7,507	0	0	0	0	0	**7,507**
Tax Supported Subtotal	$518,018	$168,345	$137,106	$133,189	$129,525	$129,715	**$1,215,898**
City Funds – Self Sustaining							
Self-Sustaining Carried-Forward Loans	$811,167	$0	$0	$0	$0	$0	**$811,167**
Self-Sustaining Operating Revenue	150,276	79,297	86,295	81,579	86,502	95,485	**579,434**
Self-Sustaining New Loans	501,750	465,811	449,493	454,736	456,444	440,776	**2,769,010**
Self-Sustaining Subtotal	$1,463,193	$545,108	$535,788	$536,315	542,946	536,261	**$4,159,611**
Other City Funds							
Revolving Funds	$15,000	$0	$0	$0	$0	$0	**$15,000**
Other Than City Funds							
Carried-Forward Other Government	$2,714	$0	$0	$0	$0	$0	**$2,714**
Other Governments Off Budget	2,253	2,429	1,746	1,744	1,684	1,573	**11,429**
Other Governments	7,000	0	0	0	0	0	**7,000**
Carried-Forward State	100,523	0	0	0	0	0	**100,523**
State Off Budget	181,842	207,356	213,810	214,097	214,122	211,865	**1,243,092**
State	35,850	36,126	41,210	43,046	41,259	40,861	**238,352**
Carried-Forward Private	114,046	0	0	0	0	0	**114,046**
Private	183,008	146,978	146,671	151,561	166,688	164,113	**959,019**
Carried-Forward Federal	154,189	0	0	0	0	0	**154,189**
Federal Off Budget	74,565	60,394	47,722	25,382	14,449	0	**222,512**
Federal	110,450	79,749	82,633	77,215	89,618	81,797	**521,462**
Other than City Funds Subtotal	$966,440	$533,032	$533,792	$513,045	$527,820	$500,209	**$3,574,338**
TOTAL – ALL FUNDS	**$2,962,651**	**$1,246,485**	**$1,206,686**	**$1,182,549**	**$1,200,291**	**$1,166,185**	**$8,964,847**

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.

On March 4, 2015, legislation was introduced in the General Assembly that would increase the $500,000 limitation described in the preceding paragraph. Such legislation, if enacted, would increase the damages limitation to $10 million. Such legislation was referred to the Committee on Judiciary on March 4, 2015. There has been no further action on this legislation. A similar bill in the 2013-2014 legislative session was never reported out of committee and never 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 2011-2015 and the current estimate for Fiscal Year 2016.

Table 48
Aggregate Losses – General and Special Litigation Claims (General Fund)
Fiscal Years 2011-2015 (Actual) and 2016 (Current Estimate)
(Amounts in Millions of USD)

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Current Estimate 2016
Aggregate Losses	$33.6	$32.6	$30.3	$41.0	$37.3	$37.7

Source: The City's adopted budgets for Fiscal Years 2012-2016.

Based on the Revised Twenty-Fourth Five-Year Plan, the current estimate of settlements and judgments from the General Fund for Fiscal Years 2017-2021 is $38.0 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. For Fiscal Year 2014, payments from the General Fund for these claims totaled $542,904 of which $522,404 was paid from the Indemnities account, and $20,500 from the operating budgets of the affected departments. For Fiscal Year 2015, payments from the General Fund for these claims totaled $1,091,548, of which

$911,548 was paid from the Indemnities account, and $180,000 from the operating budgets of the affected departments.

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.

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 2011-2015 and the current estimate for Fiscal Year 2016. The Water Fund is the first source of payment for any of the claims against the Water Department.

Table 49
Aggregate Losses – General and Special Litigation Claims (Water Fund)
Fiscal Years 2011-2015 (Actual) and 2016 (Current Estimate)
(Amounts in Millions of USD)

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Current Estimate 2016(1)
Aggregate Losses	$5.4	$3.1	$5.1	$6.1	$3.8	$6.5

Source: The City's adopted budgets for Fiscal Years 2012-2016.

1. The current estimate for Fiscal Year 2016 reflects the amount the City has historically budgeted for aggregate losses from settlements and judgments paid out of the Water Fund for Fiscal Years 2011-2015.

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 2011-2015 and the current estimate for Fiscal Year 2016. The Aviation Fund is the first source of payment for any of the claims against the Division of Aviation.

Table 50
Aggregate Losses – General and Special Litigation Claims (Aviation Fund)
Fiscal Years 2011-2015 (Actual) and 2016 (Current Estimate)

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Current Estimate 2016[1]
Aggregate Losses	$1.7 million	$1.3 million	$1.4 million	$665,527	$750,793	$2.5 million

Source: The City's adopted budgets for Fiscal Years 2012-2016.

1. The current estimate for Fiscal Year 2016 reflects the amount the City has historically budgeted for aggregate losses from settlements and judgments paid out of the Aviation Fund for Fiscal Years 2011-2015.

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 2010 through 2014. PGW revenues are the first source of payment for any of the claims against PGW. PGW currently estimates approximately $4.7 million in settlements and judgments for PGW Fiscal Year 2015.

Table 51
Claims and Settlement Activity (PGW)
PGW Fiscal Years 2010-2014
(Amounts in Thousands of USD)[1]

Fiscal Year (ending August 31)	Beginning of Year Reserve	Current Year Claims and Adjustments	Claims Settled	End of Year Reserve	Current Liability Amount
2010	$11,881	$1,237	$(3,252)	$9,866	$5,380
2011	9,866	4,299	(3,468)	10,697	4,141
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

1. Source: PGW's audited financial statements.

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APPENDIX IV

SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2015 BONDS

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SUMMARY OF CERTAIN AUTHORIZATIONS
FOR THE 2015 BONDS

The following are summaries of certain provisions and/or definitions of The First Class City Revenue Bond Act (the "Act"), the Amended and Restated General Airport Revenue Bond Ordinance of 1995, as amended and supplemented (the "General Ordinance") and the Fourteenth Supplemental Ordinance to the General Ordinance (the "Fourteenth Supplemental Ordinance"). The summaries are not, and should not be regarded as, complete statements of the provisions of these documents and legislation. Reference is made to the Act, the General Ordinance and the Fourteenth Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, 1401 J. F. Kennedy Boulevard, Municipal Services Building, Room 1330, Philadelphia, Pennsylvania 19102, for the complete terms and provisions thereof.

The term "2015 Bonds" as used in this Appendix refers to the Series 2015 Bonds, which are defined in the body of the Official Statement as the "Bonds", and the term "Bonds" as used in this Appendix refers to the "Airport Revenue Bonds" as defined in the body of the Official Statement.

THE FIRST CLASS CITY REVENUE BOND ACT

The 2015 Bonds are being issued under the terms of The First Class City Revenue Bond Act and the General Ordinance and pursuant to the Fourteenth Supplemental Ordinance. The following summarizes the terms of The First Class City Revenue Bond Act. All capitalized terms used in the following summary of The First Class City Revenue Bond Act are defined as in The First Class City Revenue Bond Act and may be differently referenced in other portions of this Official Statement.

General Authorization; Definition of Project; Bonds to be Special Obligations

The Act is intended to provide a comprehensive authorization to the City and any other Pennsylvania city of the first class to issue revenue bonds ("Bonds") to finance various types of projects.

The Act defines "Project" to include, among other things, any buildings, structures, facilities or improvements of a public nature, the related land, rights or leasehold estates in land and the related furnishings, machinery, apparatus or equipment of a capital nature, which the City is authorized to own, construct acquire, improve, lease, operate or support; any item of construction, acquisition or extraordinary maintenance or repair thereof, the City's share of the cost of any of the foregoing undertaken jointly with others; and any combination of the foregoing or any undivided portion of the cost of any of the foregoing as may be designated a project by the City for financing purposes and in respect of which the City may reasonably be expected to receive "Project Revenues" (as defined in the act), which include, among other things, all revenues generated by the Project financed.

Bonds issued under the Act are required to be payable solely from Project Revenues and to be secured solely by such revenues and by any reserve funds which may be created in connection with the Bonds. The Bonds are not permitted to pledge the credit or taxing power of the City, to create a debt or charge against the tax or general revenues of the City, or to create a lien against any City property other than the Project Revenues pledged therefore and reserve funds established in respect of the Bonds. The Bonds are excluded from the calculation of the City's debt-incurring capacity under the Pennsylvania Constitution.

Estimates of Future Revenues

To establish that Project Revenues will be sufficient to amortize all Bonds outstanding, the Act requires a finding to be made in the ordinance authorizing the issuance of the Bonds that the pledged Project Revenues will be sufficient to pay any prior parity charges on such pledged Project Revenues and the principal of and interest on the Bonds. The finding is to be based on a report of the chief fiscal officer of the City filed with the City Council and supported by appropriate schedules and summaries. The report of the chief fiscal officer of the city may be based on a report of the airport consultant employed by the City to evaluate the Project.

For the purposes of estimating future Project Revenues, the Act provides that only the following shall be included (i) those rents, rates, tolls or charges to the general public which, under existing authorizations, and in effect as of the date of calculation, will be reasonably collectable during the fiscal year under the rate schedule which is or will be in effect during such fiscal year, or which may be imposed by administrative action without further legislation: (ii) those bulk payments which may be imposed under subsisting legislation or which are provided under subsisting agreements or are the subject of an expression of intent by the prospective obligor deemed reliable by the chief fiscal officer of the City; and (iii) those governmental subsidies or payments which, under subsisting legislation, are subject to reasonably precise calculation and, unless stated in such legislation or authorization to be of an annually or more frequent recurring nature, are payable in such year.

Details of Bonds and City Covenants

The Act provides that the ordinance authorizing the issuance of the Bonds shall fix the aggregate amounts of the Bonds to be issued from time to time and determine, or designate officers of the City to determine, the form and details of the Bonds. The City may include in its Bond ordinance various covenants with Bondholders, including covenants governing the imposition, collection and disbursement of Project Revenues, Project operation and maintenance, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and reserves, the issuance of additional priority or parity bonds, the redemption of the Bonds and such other provisions as the City deems necessary or desirable in the interest or for the protection of the City or of such Bondholders. Under the Act the covenants, terms and provisions of the Bond ordinance made for the benefit of Bondholders constitute contractual obligations of the City, but such covenants (within limitations, if any, fixed by the Bond ordinance) may be modified by agreement with a majority in interest of the Bondholders or such larger portion thereof as may be provided in the Bond ordinance.

Sinking Fund

The Act requires that the Bond ordinance shall provide for the establishment of a sinking fund for the payment of the principal of and interest on the Bonds. Payment into such sinking fund shall be made in annual or more frequent installments and shall be sufficient to pay or accumulate for payment all principal of and interest on the Bonds for which the sinking fund is established as and when the same shall become due and payable. The sinking fund shall be managed by the chief fiscal officer of the City and moneys therein to the extent not currently required, shall be invested, subject to limitations established by the Bond ordinance and the Act. Interest and profits from investment of moneys in the sinking fund shall be added to such fund and may be applied in reduction of or to complete required deposits into the sinking fund. Excess moneys in the sinking fund shall be repaid to the City for its general purposes or may be applied as may be provided in the Bond ordinance. All moneys deposited in the sinking fund are subjected to a perfected security interest for the benefit of the holders of the Bonds, for which the fund is established, until properly disbursed. This perfected security interest also applies, under the terms of the Act, to moneys in the sinking fund reserve created as part of the sinking fund by the General Ordinance.

Refunding

Any outstanding Bonds issued under the Act or other bonds issued for purposes for which bonds are issuable under the Act, whether issued before or after the effective date of the Act, may from time to time be refunded by Bonds issued under the Act and are subject to the same protections and provisions required for the issuance of an original issue of Bonds. The last stated maturity date of the refunding Bonds may not be later than ten years after the last stated maturity date of the Bonds to be refunded. If outstanding Bonds are refunded in advance of their maturity or redemption date, the principal thereof and interest thereon to payment or redemption date, and redemption premium payable, if any, will no longer be deemed to be outstanding obligations when the City shall have deposited with a bank, bank and trust company or trust company, funds irrevocably pledged to the purpose, which are represented by demand deposits, interest bearing time accounts, savings deposits, certificates of deposit (insured or secured as public funds) or specified obligations of the United States or of the Commonwealth of Pennsylvania to effect such redemption or payment or, if interest on the deposited funds to the time of disbursement is also pledged, sufficient, together with such interest, for such purpose and, in the case of redemption, shall have duly called the Bonds for redemption or given irrevocable instructions to give notice of such call.

Validity of Proceedings; Suits and Limitations Thereon

Prior to delivery of any Bonds, the City must file with the Court of Common Pleas a transcript of the proceedings authorizing the issuance of the Bonds. If no action is brought on or before the twentieth day following the date of recording of the transcript, the validity of the proceedings, the City's right to issue the Bonds, the lawful nature of the purpose for which the Bonds are issued, and the validity and enforceability of the Bonds in accordance with their terms may not thereafter be inquired into judicially, in equity, at law, or by civil or criminal proceedings, or otherwise, either directly or collaterally, except where a constitutional question is involved.

Negotiable Instrument

The Act provides that Bonds issued thereunder shall have the qualities and incidents of securities under article 8 of the Uniform Commercial Code of the Commonwealth and shall be negotiable instruments.

Exemption from State Taxation

The Commonwealth pledges with the holders from time to time of Bonds issued under the Act that such Bonds, and the interest thereon, shall at all times be free from taxation within and by the Commonwealth, but this exemption does not extend to gift, succession or inheritance taxes or any other taxes not levied directly on the Bonds and the receipt of interest thereon.

Defaults and Remedies

If the City should fail to pay the principal of or interest on any Bond when the same shall be due and payable, the remedy provisions of the Act permit the holder of such Bond, subject to the limitations described below, to recover the amount due in an action in Philadelphia Common Pleas Court; but a judgment rendered in favor of the Bondholder in such an action is collectible only from Pledged Amounts. The holders of 25% or more in aggregate principal amount of the Bonds of such series then outstanding which are in default, whether because of failure of timely payment which is not cured in 30 days, or failure of the City to comply with any other provisions of the Bonds or any Bond ordinance, may appoint a trustee to represent them. On being appointed, the trustee shall be the exclusive representative for the affected Bondholders and the individuals rights of action described above shall no longer be available. The trustee may, and upon written request of the holders of 25% or more in aggregate principal amount of Bonds in default, and on being furnished with indemnity satisfactory to it, shall, take one or more of the following actions, which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual holders of Bonds; enforce, by proceedings at law or in equity, all rights of the holders of the Bonds; bring suit on the Bonds; bring suit in equity to require the City to make an accounting for all pledged Project Revenues received and to enjoin unlawful action or action in violation of the holders' rights; and, after 30 days' written notice to the City, and subject to any limitations in the Bond ordinance, declare the unpaid principal of the Bonds to be immediately due and payable, together with interest thereon at the rates stated in the Bonds until final payment, and upon the curing of all defaults, to annual such declaration. In any suit, action or proceeding by or on behalf of holders of defaulted Bonds, trustee fees and expenses, including operating costs of a project and reasonable counsel fees, shall constitute taxable costs, and all such costs and expenses allowed by the Court shall be deemed additional principal due on the Bonds and shall be paid in full from any recovery prior to any distribution to the holders of the Bonds. The General Ordinance limits any such recovery to Pledged Amounts. The trustee shall make distribution of any sums so collected in accordance with the Act.

Refunding with General Obligation Bonds

Upon certification by the City's chief fiscal officer that Project Revenues pledged for the payment of Bonds have become insufficient to meet the requirements of the ordinance or ordinances under which the Bonds were issued, the City Council is empowered, subject to applicable Pennsylvania constitutional debt limitations, to authorize the issuance and sale of general obligation refunding bonds of the City, without limitations as to rate of interest, in such principal amount (subject to the aforesaid limitations on indebtedness) as may be required, together with other available funds, to pay and redeem such Bonds, together with interest to the payment or redemption date and redemption premium, if any.

THE AMENDED AND RESTATED GENERAL AIRPORT REVENUE BOND ORDINANCE

The 2015 Bonds are being issued under the terms of the General Ordinance and pursuant to the Fourteenth Supplemental Ordinance. The Fourteenth Supplemental Ordinance sets forth the specific terms of the 2015 Bonds. The following summarizes the terms of the General Ordinance. All capitalized terms used in the following summary of the General Ordinance are defined as in the General Ordinance and may be differently referenced in other portions of this Official Statement.

Certain Definitions

The following is a summary of certain terms defined in the General Ordinance and used in this Official Statement. Reference should be made to the General Ordinance for a full and complete statement of its terms and any capitalized terms used herein but not otherwise defined.

"Accreted Value" means, with respect to Capital Appreciation Bonds, the amount to which, as of any specified time, the Original Value of any such Capital Appreciation Bond has been increased by accretion, all as may be provided in an applicable Supplemental Ordinance.

"Act" means The First Class City Revenue Bond Act, approved October 18, 1972 (Act No. 234, 53 P.S. §15901 to 15924), as from time to time amended.

"Airport System" means the Airport and Northeast Philadelphia Airport, as such system currently exists or hereafter may be developed, expanded, extended or improved from time to time.

"Amended and Restated General Airport Revenue Bond Ordinance" or "General Ordinance" means the Amended and Restated General Airport Revenue Bond Ordinance, as amended from time to time by one or more Supplemental Ordinances in accordance with Article V or Article X of the Amended and Restated General Airport Revenue Bond Ordinance.

"Amounts Available for Debt Service" means for any particular period, Project Revenues for that period plus: (a) Passenger Facility Charges which are legally available to pay Debt Service Requirements with respect to such particular period to the extent such Passenger Facility Charges have been pledged under a Supplemental Ordinance, and (b) grants or moneys received from private persons or public agencies, either federal, state or local, directly or indirectly for the benefit of the Airport System, to the extent deposited in the Sinking Fund to be used for Debt Service Requirements.

"Assumed Amortization Period" means, with respect to Balloon Bonds, the period of time specified in clause (a) or clause (b), as selected by the City: (a) five years; or (b) the period of time exceeding five years set forth in an Investment Banker's Certificate delivered to the City, as being not longer than the maximum period of time over which indebtedness having comparable terms and security issued or incurred by similar issuers of comparable credit standing would need to be amortized, if then being offered, in order to be marketable on reasonable and customary terms.

Notwithstanding the foregoing, such period shall not be in excess of (i) the maximum amortization period permitted by the Act, or (ii) the useful life of the assets to be financed, or the remaining useful life of the assets being refinanced.

"Assumed Interest Rate" means with respect to Balloon Bonds, the rate per annum (determined as of the last day of the calendar month next preceding the month in which the determination of Assumed Interest Rate is being made) set forth in an Investment Banker's Certificate delivered to the City, as being not lower than the lowest rate of interest at which indebtedness having comparable terms, security and federal tax status amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period, and issued or incurred by similar issuers of comparable credit standing would, if being offered as of such last day of the calendar month, be marketed at par on reasonable and customary terms.

"Authority" shall mean a municipal authority created pursuant to the Municipal Authorities Act of 1945, as amended, or an authority created pursuant to any other applicable statute or to another entity.

"Aviation Capital Fund" means the Aviation Capital Fund established in Section 4.04 of the General Ordinance.

"Aviation Funds" means, collectively, the Aviation Operating Fund, the Aviation Capital Fund, the Sinking Fund (including the Sinking Fund Reserve Account), the Subordinate Obligations Fund, and the Renewal Fund.

"Aviation Operating Fund" means the operating fund of the Division of Aviation which is so designated in the City's books and records and which is established in Section 4.04 of the General Ordinance and described in Sections 4.05 and 4.06 of the General Ordinance.

"Balloon Bonds" means any series of Bonds, or any portion of a series of Bonds, designated by Determination as Balloon Bonds, (a) 25% or more of the principal payments (including mandatory sinking fund payments) of which are due in a single year, or (b) 25% or more of the principal of which may, at the option of the holder or holders thereof, be redeemed at one time.

"Bond" or "Bonds" means any airport revenue bond, note, commercial paper or obligation of the City, authorized and issued, or assumed, under one or more supplemental ordinances amending and supplementing the General Airport Revenue Bond Ordinance of 1978, or the General Ordinance.

"Bond Committee" means the Mayor, City Controller and City Solicitor or a majority thereof.

"Bond Counsel" means a firm of nationally recognized bond counsel selected by the City.

"Bondholder" or "Holder" means any registered owner of Bonds or holder of Bonds issued in coupon form at the time Outstanding.

"Capital Appreciation Bonds" means any Bonds issued under the General Ordinance which do not pay interest either until maturity or until a specified date prior to maturity, but whose Accreted Value increases periodically by accretion to a final Maturity Value.

"City" means the City of Philadelphia, Pennsylvania.

"City Controller" means the head of the City's auditing department as provided by the Philadelphia Home Rule Charter.

"City Solicitor" means the head of the City's law department as provided by the Philadelphia Home Rule Charter.

"Code" means the Internal Revenue Code of 1986, as amended.

"Consultants" means nationally recognized Independent registered consulting engineers, registered architects, certified public accountants or other Independent qualified experts having broad experience in the operation of airport systems of the magnitude and scope of the Airport System.

"Cost Accounting System" means the system for accounting for the collection, allocation, and reporting of revenues, expenses and debt service associated with the operation of the Airport System in accordance with Cost Centers as provided for in the Airline Agreements, or if none of the Airline Agreements is in effect, as determined by the City, from time to time.

”Cost Centers" means the cost areas to be used in the Cost Accounting System as set forth in the Airline Agreements, or if none of the Airline Agreements is in effect, then as determined by the City from time to time. Such Cost Centers shall initially consist of the Airport Area Cost Center, the Terminal Area Cost Center, the Other

Buildings and Area Cost Center, the Northeast Philadelphia Airport Cost Center, the Outside Terminal Area Cost Center and the Airport Services Cost Center, all as defined in the Airline Agreements.

"Credit Facility" means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is, at the time in question, rating Bonds Outstanding under the General Ordinance) not lower than the credit rating of any Series of Bonds which has no Credit Facility, to provide support for a Series of Bonds, and shall include any Substitute Credit Facility.

"Debt Service Account" means the Debt Service Account of the Sinking Fund established in Section 4.04 of the General Ordinance.

"Debt Service Requirements," with reference to a specified period, means:

A. amounts required to be paid into any mandatory sinking fund established for the Bonds, for the benefit of Bondholders during the period;

B. amounts needed to pay the principal or redemption price of Bonds maturing during the period and not to be redeemed at or prior to maturity through any sinking fund established for the Bonds, for the benefit of the Bondholders;

C. interest payable on Bonds during the period, with adjustments for (i) capitalized interest and accrued interest, (ii) any investment income realized from investments in the Aviation Capital Fund, Sinking Fund Reserve Account and Renewal Fund to the extent that such investment proceeds are deposited in or credited to the Debt Service Account of the Sinking Fund, and (iii) all net amounts payable to the City under a Qualified Swap during such period (other than termination amounts payable by a Qualified Swap Provider due as a result of termination of a Qualified Swap); and

D. all net amounts, if any, due and payable by the City under a Qualified Swap (other than termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap), a Credit Facility, or a Standby Agreement for Bonds during such period secured by a parity pledge of Project Revenues as set forth in a Determination or Supplemental Ordinance pursuant to which the related Bonds were issued.

For purposes of estimating Debt Service Requirements for any future period, (i) any Option Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option Bond that has been tendered for payment before its stated maturity date and has not at the time of such estimate been remarketed, shall be deemed to accrue on the date required for payment pursuant to the terms of the Standby Agreement; and (ii) Debt Service Requirements on Bonds for which the City has entered into a Qualified Swap shall be calculated assuming that the interest rate on such Bonds shall equal the stated fixed or variable rate payable by the City on the Qualified Swap or, if applicable and if greater than such stated rate, the applicable rate for any Bonds issued in connection with the Qualified Swap adjusted, in the case of a variable rate obligation, as provided in Section 5.01 of the General Ordinance; provided that if the Qualified Swap Provider's payments under the Qualified Swap are based on an index, then, Debt Service Requirements on such Bonds shall be calculated using the sum of (i) the interest rate on the Bonds, and (ii) the difference between the fixed rate obligation of the City under the Swap Agreement and such index; provided, further that, for purposes of projecting the difference in (ii) above, the City shall be entitled to assume that the difference will be equal to the average differential during the period of twenty-four (24) consecutive calendar months preceding the date of calculation or, if the Swap Agreement was entered into less than twenty-four (24) months prior thereto, the average differential since the date the Swap Agreement was entered into.

Calculation of Debt Service Requirements with respect to Variable Rate Bonds and Balloon Bonds shall be subject to adjustment as permitted by Section 5.01(b) of the General Ordinance.

"Determination" means a determination by the Bond Committee regarding certain matters relating to the issuance of a Series of Bonds, made pursuant to the General Ordinance or the Supplemental Ordinance providing for the issuance of such Series of Bonds.

"Director of Finance" means the chief financial officer of the City as established by the Philadelphia Home Rule Charter.

"Division of Aviation" means the division of the Department of Commerce of the City responsible for the maintenance, improvement, repair and operation of the Airport System and for the construction of additional facilities for the Airport System or any successor division or Department of the City which is charged by law with such responsibility.

"Effective Date" shall have the meaning set forth in Article I of the General Ordinance.

"Exchange Agreement" means, to the extent from time to time permitted by applicable law, any interest exchange agreement, interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap that has not been deemed to be an Exchange Agreement pursuant to Section 3.12 of the General Ordinance, authorized, recognized and approved by a Supplemental Ordinance or Determination as an Exchange Agreement and providing for (i) certain payments by the City, and (ii) payments by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability are rated at all times in one of the three highest rating categories (without regard to gradation) by Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance) or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into; which payments by the City and counterparty are calculated by reference to fixed or variable rates.

"Existing Bonds" means any Bonds to the extent the lien of such bonds is not defeased on or prior to the Effective Date of the General Ordinance, which Existing Bonds shall be specified in a certificate of the Director of Finance on the Effective Date and thereafter shall be secured by the General Ordinance.

"Financial Consultant" means a firm of investment bankers, a financial consulting firm, a firm of certified public accountants or any other firm which is qualified to calculate amounts required to be rebated to the United States pursuant to Section 148(f) of the Code.

"Fiscal Agent" means a bank or other entity designated as such pursuant to Section 7.01 of the General Ordinance or its successor.

"Fiscal Year" means the fiscal year of the City.

"Fitch" means Fitch Investors Service and any successor thereto.

"General Airport Revenue Bond Ordinance of 1978" means the General Airport Revenue Bond Ordinance of 1978, approved March 16, 1978, as amended and supplemented from time to time.

"General Obligation Bonds" means the general obligation bonds of the City issued and outstanding from time to time to finance, in whole or in part, improvements to the Airport System and adjudged, pursuant to the Constitution and laws of the Commonwealth of Pennsylvania, to be self-sustaining on the basis of expected Project Revenues.

"Government Obligations" means direct noncallable obligations of, or obligations of the principal of and interest on which are fully and unconditionally guaranteed as to full and timely payment by, the United States of America.

"Interdepartmental Charges" means the actual charges for services performed for the Division of Aviation by all officers, departments, boards or commissions of the City which are included in the computation of Operating Expenses of the Division of Aviation and allocable to the Airport System.

"Independent" means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

"Investment Banker's Certificate" means a written estimate of an investment banker selected by the City and experienced in underwriting indebtedness of the character of the Bonds in question.

"Maturity Value" with respect to Capital Appreciation Bonds means the amount due on the maturity date.

"Moody's" means Moody's Investors Service and any successor thereto.

"Net Operating Expenses" means Operating Expenses exclusive of Interdepartmental Charges. On and after the date on which a transaction described in Section 9.01 of the General Ordinance is completed, Net Operating Expenses may include Interdepartmental Charges at the written direction of the City.

"Non-Parity Sinking Fund Reserve Requirement" means any Sinking Fund Reserve Requirement referred to in clause (ii) of the definition of "Sinking Fund Reserve Requirement" as specified in a Supplemental Ordinance.

"Non-Parity Sinking Fund Reserve Account" means any account of the Sinking Fund Reserve Account created pursuant to a Supplemental Ordinance for a particular Series of Bonds that will not be secured by the Parity Sinking Fund Reserve Account, and for which a Non-Parity Sinking Fund Reserve Requirement applies.

"Northeast Philadelphia Airport" means the airport facility operated by the Division of Aviation, and located in the northeast portion of the City as such facility currently exists or hereafter may be developed, extended or improved from time to time.

"NSS General Obligation Bonds" means the general obligation bonds of the City issued and outstanding from time to time to finance, in whole or in part, improvements to the Airport System that have not been adjudged to be self-sustaining on the basis of expected Project Revenues.

"Operating Expenses" means all costs and expenses of the Airport System necessary and appropriate to operate and maintain in good operating condition during each Fiscal Year those portions of the Airport System from which revenues are derived and which are included within the definition of Project Revenues, and shall include, without limitation, salaries and wages, purchases of services, interest on temporary borrowings to be paid from Bonds, costs of materials, supplies and equipment that can be expensed, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Airport System having an estimated life or usefulness and a cost less than minimum standards for capitalization established by the Division of Aviation's accounting policies (provided such minimum standards shall in no event be less than the standards set forth in the City Charter of the City), pension and welfare plan and worker's compensation requirements, unemployment compensation requirements, taxes and payments in lieu of taxes, insurance premiums, provisions for claims, refunds and uncollectible receivables and Interdepartmental Charges, all consistently determined in accordance with the accrual basis of accounting adjusted to meet the particular requirements of the Airline Agreements and the Ordinance, consistently applied, but Operating Expenses shall exclude depreciation, amortization, and except as expressly set forth above, Debt Service Requirements and amounts due under Subordinate Obligations and Exchange Agreements. Operating Expenses shall also exclude debt service on General Obligation Bonds and NSS General Obligation Bonds. Aggregate financing payments under capitalized lease agreements shall be payable as Operating Expenses to the extent payments under such capitalized lease agreements either (i) do not constitute Capital Expenditures under the Airline Agreements, or (ii) constitute Capital Expenditures under the Airline Agreements and have not been disapproved by the Majority-in-Interest under the Airline Agreements. Any financing payments on capitalized lease agreements not satisfying the requirements of either clause (i) or (ii) above, may be payable in accordance with Section 4.06(i) of the General Ordinance.

"Option Bond" means any Bond which by its terms may be tendered by and at the option of the Holder thereof for payment by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

"Ordinance" means the General Ordinance, as amended from time to time by one or more Supplemental Ordinances in accordance with Article V or Article X of the General Ordinance.

"Original Value" with respect to Capital Appreciation Bonds means the principal amount paid by the initial purchasers on the date of original issuance.

"Outside Terminal Area" shall have the meaning ascribed in the Airline Agreements.

"Outstanding" when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being issued and delivered subject to the General Airport Revenue Bond Ordinance of 1978 or the General Ordinance except (i) any Bonds canceled by the Fiscal Agent at or prior to such date; (ii) Bonds (or portion of Bonds) for the payment or redemption of which moneys, equal to the principal amount, Accreted Value or redemption price thereof, as the case may be, with interest (except to the extent of any Capital Appreciation Bonds) to the date of maturity or redemption date, shall be held in trust under the General Ordinance and set aside for such payment or redemption, provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as provided in Article VI of the General Ordinance or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice; (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III or Section 6.06 of the General Ordinance; and (iv) Bonds deemed to have been paid as provided in Section 11.01 of the General Ordinance.

"Parity Sinking Fund Reserve Requirement" means the Sinking Fund Reserve Requirement described in clause (i) of the definition of " Sinking Fund Reserve Requirement."

"Parity Sinking Fund Reserve Account" means the Sinking Fund Reserve Account created pursuant to the first paragraph of Section 4.09 of the General Ordinance.

"Passenger Facility Charges" means all passenger facility charges collected pursuant to applicable law.

"Payments-in-Aid of Outside Terminal Area" means the payment-in-aid of the Outside Terminal area required to be made by the Scheduled Airlines pursuant to the Airline Agreements.

"Permitted Investments" shall mean any of the following obligations, but only to the extent the same are legal for investment of funds of the City at the time, under applicable law:

Government Obligations;

Qualified Rebate Fund Securities;

Bonds, notes or other obligations of United States government agencies issued by the Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, General Services Administration, Government National Mortgage Association, Resolution Funding Corporation, U.S. Maritime Administration, Small Business Administration, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Student Loan Marketing Association;

Interest-bearing time or demand deposits, or certificates of deposit with a maturity date of no longer than twenty four months from the date of the investment, or other similar arrangements with any institution (including the Fiscal Agent or its affiliates) with a bond or deposit rating at all times in the higher of (i) the rating on the Bonds Outstanding under the General Ordinance, or (ii) one of the three highest rating categories (without regard to gradation), by S&P and Moody's (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance); with a maturity date of no longer than twenty four months from the date of the investment, provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation through the Bank Insurance

Fund or Savings Association Insurance Fund, or to the extent not insured, are secured by a pledge of collateral as provided by laws applicable to funds of the City of Philadelphia;

Commercial paper (having original maturities of not more than 270 days) rated at all times P-1 or A-1+ by Moody's and S&P, respectively, however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance;

Investments in money market funds rated at all times in one of the two highest rating categories (without regard to gradation) by S&P and Moody's (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance);

Repurchase agreements with a term not exceeding twenty four months with the Fiscal Agent or any bank with a capital and surplus of at least $100,000,000 and a bond or deposit rating at all times in the higher of (i) the rating on the Bonds Outstanding under the General Ordinance, or (ii) one of the three highest rating categories of S&P and Moody's (provided that, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance) which bank is a member of the Federal Reserve System, or with government bond dealers recognized as primary dealers by the Federal Reserve Bank of New York, that are collateralized with Permitted Investments described in (a) or (b) above, having a market value at the time of purchase (inclusive of accrued interest) at least equal to 102% of the full amount of the repurchase agreement and which Permitted Investments shall be held by a third party custodian which is a bank or trust company pursuant to a third party custodial agreement;

General Obligation bonds of corporations rating in one of the two highest rating categories (without regard to gradation) by Moody's and S&P, provided that, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance;

Collateralized mortgage obligations which are rated in one of the two highest rating categories (without regard to gradation) by Moody's and S&P, with a maturity date no later than two years from the date of investment; provided that the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance;

Obligations of the Commonwealth or any municipality or other political subdivision of the Commonwealth with a maturity date no later than two years from the date of investment, rated by Moody's and S&P in one of the three highest rating categories (without regard to gradation); provided that, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bond Outstanding under the General Ordinance; and

Any other obligation approved in writing by S&P and Moody's to the extent that either is rating Bonds Outstanding under the General Ordinance at the time.

"Philadelphia Home Rule Charter" means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P. L. 665 §1, *et seq*. (53 P. S. § 13101, *et seq*.).

"Pledged Amounts" shall have the meaning set forth in Section 4.02 of the General Ordinance.

"Prior Bonds" means the bonds issued under the General Airport Revenue Bond Ordinance of 1978 designated as Airport Revenue Bonds, Series 1978, 1984, 1985 and 1988.

"Project" shall have the meaning assigned to it in the Act, as the same may be amended from time to time.

"Project Revenues" means all of the revenues, rents, rates, tolls or other charges imposed upon all lessees, occupants and users of the Airport System and all moneys received by or on behalf of the City from all sources during any Fiscal Year (except as hereinafter excluded) from or in connection with the ownership, operation, improvements and enlargements of the Airport System, or any part thereof and the use thereof, including, without limitation, revenues pledged or appropriated for the benefit of the Airport System, all rentals, rates, charges, landing fees, use charges, concession revenues, income derived from the City's sale of services, fuel, oil, and other supplies or commodities, and all other charges received by the City or accrued by it from the Airport System, and any investment income realized from the investment of the foregoing, except as provided below, and all accounts, contract rights and general intangibles representing the Project Revenues all consistently determined in accordance with the accrual basis of accounting adjusted to meet the particular requirements of the Airline Agreements (if any of the Airline Agreements are in effect) and the General Ordinance.

Project Revenues as defined in the preceding paragraph shall not include (a) any and all Passenger Facility Charges, or any taxes which the City may from time to time impose upon users of the Airport System, (b) any governmental grants and contributions in aid of capital projects, (c) such rentals as may be received pursuant to Special Facility Agreements for Special Purpose Facilities, (d) proceeds of the sale of Bonds and any income realized from the investment of proceeds of the sale of Bonds maintained in the Aviation Capital Fund and income realized from investments of amounts maintained in the Renewal Fund and Sinking Fund Reserve Account, (e) except as required by applicable laws, rules or regulations, net proceeds from the sale of Airport assets, including the sale or transfer of all or substantially all of the assets of the Airport System under Section 9.01 hereof unless the Division of Aviation determines to include any such net proceeds as Project Revenues and such determination is evidenced by written notification by the City to the Fiscal Agent, (f) proceeds of insurance or eminent domain (other than proceeds that provide for lost revenue due to business interruption or business loss), and (g) net amounts payable to the City under a Qualified Swap (other than termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap).

"Qualified Escrow Securities" means funds which are represented by (a) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (b) if at the time permitted under the Act, noncallable obligations of the Commonwealth of Pennsylvania or any political subdivision thereof or any agency or instrumentality of the Commonwealth of Pennsylvania or any political subdivision thereof for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance) in the highest rating category (without regard to gradations) assigned by each such rating service to obligations of the same type, or (c) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal, maturing or payable at the option of the holder, at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

"Qualified Rebate Fund Securities" means either:

(a) Government Obligations; or

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 or by registration as to ownership 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 held under book-entry with the New York Federal Reserve Bank; or

Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and which are rated at the time purchased, based on the escrow, in the highest rating category of S&P and Moody's.

"Qualified Swap" or "Swap Agreement" means, with respect to a Series of Bonds, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of all or any portion of the Outstanding Bonds of such Series, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount of such Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement, (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of all or any portion of the Outstanding Bonds of such Series at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the same principal amount of such Bonds at an agreed fixed rate or that one shall pay to the other any net amount due under such arrangement or, (c) the City shall be paid by a Qualified Swap Provider an amount, based on a notional amount equal to the principal amount of all or any portion of the Outstanding Variable Rate Bonds of such Series, if the interest rate on such Series of Variable Rate Bonds exceeds a previously agreed upon rate, and/or the City shall pay to the Qualified Swap Provider an amount, based on a notional amount equal to the principal amount of all or any portion of the Outstanding Variable Rate Bonds of such Series, if the interest rate on such Series of Variable Rate Bonds is less than a previously agreed upon rate; (iii) has been approved of in writing by the Scheduled Airlines and UPS (provided that the written consent of UPS shall be obtained only to the extent required, as determined in the sole discretion of the City); and (iv) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to the Bonds.

"Qualified Swap Provider" means, with respect to a Series of Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at the higher of (i) A by Moody's and A by S&P, or the equivalent thereof by any successor thereto, or (ii) the then current rating on Bonds outstanding under the General Ordinance, without taking into account Bonds the rating on which is based upon a Credit Facility for such Bonds, provided if all Bonds Outstanding under the General Ordinance are rated based upon one or more Credit Facilities, then the senior unsecured long term obligations or claims paying ability of the provider shall be at least equal to A by Moody's and S&P.

"Rate Covenant" means the rate covenant applicable pursuant to Section 5.01 of the General Ordinance.

"Rating Agency" means Moody's, S&P or Fitch, to the extent that any of such rating services have issued a credit rating on the Bonds which is in effect at the time in question or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on the Bonds at the request of the City and such credit rating is in effect at the time in question.

"Rebate Bond Year," for purposes of Section 4.14 of the General Ordinance and in order to facilitate compliance with the arbitrage rebate requirements of the Code, shall mean the period or periods specified in a Supplemental Ordinance or Determination for a Series of Bonds.

"Rebate Fund" means the Rebate Fund established in Section 4.04 of the General Ordinance.

"Record Date" means (i) with respect to any Variable Rate Bond, the Business Day immediately preceding an interest payment date or a redemption date or the maturity date, or such other date as set forth in the related Supplemental Ordinance, and (ii) with respect to Bonds bearing interest in a fixed rate mode or Bonds bearing interest at a prescribed fixed rate, the fifteenth (15th) day (regardless of whether it is a Business Day) of the calendar month next preceding an interest payment date, a redemption date or maturity date, or such other date as set forth in the related Supplemental Ordinance.

"Remarketing Agent" means a Remarketing Agent appointed in the manner provided in the applicable Supplemental Ordinance or Determination authorizing the issuance of Variable Rate Bonds.

"Remarketing Agreement" means an agreement providing for the remarketing of tendered Variable Rate Bonds by a Remarketing Agent, as more fully set forth and defined in the Supplemental Ordinance authorizing any Series of Variable Rate Bonds.

"Renewal Fund" means the Renewal Fund established in Section 4.04 of the General Ordinance.

"Renewal Fund Requirement" means $2,500,000 or such other amount as determined by the Consultant from time to time to be appropriate taking into account the size and operations of the Airport System.

"Required Rebate Fund Balance" shall have the meaning set forth in Section 4.14 of the General Ordinance.

"Scheduled Airlines" means the airlines that are signatories to the Airline Agreements.

"Second Supplemental Ordinance" means the Second Supplemental Ordinance to the General Ordinance.

"Series" when applied to Bonds means, collectively, all of the Bonds of a given issue authorized by Supplemental Ordinance, as provided in the General Ordinance, and may also mean, if appropriate, a subseries of any Series if, for any reason, the City should determine to divide any Series into one or more subseries of Bonds, or multiple series of Bonds, as the case may be.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill and any successor thereto.

"Sinking Fund" means the Sinking Fund established in Section 4.04 of the General Ordinance.

"Sinking Fund Depositary" means the bank named as such in Section 7.01 of the General Ordinance.

"Sinking Fund Installment" means an amount so designated which is established pursuant to Section 3.01 of the General Ordinance.

"Sinking Fund Reserve Account" means the Sinking Fund Reserve Account established in Section 4.04 of the General Ordinance.

"Sinking Fund Reserve Requirement" means (i) with respect to all Bonds (whether interest thereon is includable in, or excludable from, gross income for Federal income tax purposes) which the City determines will be secured by the Parity Sinking Fund Reserve Account, an amount equal to the lesser of (A) the greatest amount of Debt Service Requirements on Bonds payable in any one Fiscal Year, determined as of any particular date, or (B) the maximum amount permitted by the Code to be maintained without yield restriction for bonds, the interest on which is not includable in gross income for federal income tax purposes, and (ii) with respect to all Bonds which the City determines to secure with a Non-Parity Sinking Fund Reserve Account (whether interest thereon is includable in, or excludable from, gross income for Federal income tax purposes), the amount, if any, required to be deposited or maintained in the subaccount of the Sinking Fund Reserve Account as specified in a Supplemental Ordinance. For purposes of determining the Sinking Fund Reserve Requirement, Debt Service Requirements will be computed without regard to any Qualified Swap, Credit Facility or Standby Agreement, and the Debt Service Requirements attributable to any (i) Balloon Bonds, or Variable Rate Bonds shall be calculated in the manner set forth in Section 5.01(b) of the General Ordinance, or based upon the assumed fixed rate of interest as set forth in the Supplemental Ordinance or Determination for such Bonds, and (ii) Option Bonds shall be calculated in the manner set forth in the last paragraph under the definition of Debt Service Requirements.

"Special Facility Agreement" means an agreement entered into by the City and one or more other parties, relating to the design, construction, and/or financing of any facility, improvement, structure, equipment, or assets acquired or constructed on any land or in or on any structure or buildings that is or are part of the Airport System, all or a portion of the payments to the City under which (a) are intended to be excluded from Amounts Available for Debt Service, and (b) may be pledged to the payment of Special Facility Revenue Bonds.

"Special Facility Revenue Bonds" means any City revenue bonds or notes authorized and issued for the purpose of acquiring, constructing, or improving a Special Purpose Facility leased to, or contracted for operation by, any person or persons, under a specific lease or contract requiring the user or users thereof to provide for the payment of rentals or sums adequate to pay all principal, interest, redemption price, reserve requirements, if any, as required in the legislation authorizing the Special Facility Revenue Bonds (the "debt service charges") on the Special Facility Revenue Bonds.

"Special Purpose Facility" means any facility acquired or constructed for the benefit or use of any person or persons and the costs of construction and acquisition of which are paid for (a) by the obligor under a Special Facility Agreement, (b) from the proceeds of Special Facility Revenue Bonds, or (c) both.

"Standby Agreement" with respect to a Series of Bonds, means an irrevocable letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement providing for the purchase of all or a portion of the Bonds of such Series, as amended, supplemented or extended from time to time.

"Standby Purchaser," with respect to a Series of Bonds, means the provider of the Standby Agreement for such Series of Bonds.

"Subordinate Obligation" means any obligation referred to in, and complying with the provisions of, Section 5.04(h) of the General Ordinance.

"Subordinate Obligation Fund" means the Subordinate Obligation Fund established in Section 4.04 of the General Ordinance.

"Subordinate Obligation Ordinance" means the ordinance, and any supplements or amendments thereto authorizing the issuance of a series of Subordinate Obligations.

"Substitute Credit Facility" means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that replaces a Credit Facility and is provided by a commercial bank, insurance company or other financial institution with a then current long term credit rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is, at the time in question, then rating Bonds Outstanding under the General Ordinance) not lower than the credit rating of any Series of Bonds which has no Credit Facility; provided that in no event shall such substitution take place unless Moody's and S&P acknowledge in writing that such substitution, in and of itself, will not result in a lowering, suspension or withdrawal of the rating on the Bonds secured by such Credit Facility.

"Supplemental Ordinance" means an ordinance supplemental to the General Ordinance enacted pursuant to the Act and the General Ordinance by the Council of the City.

"Tender Agent," with respect to a Series of Bonds, means any commercial bank or trust company organized under the laws of any state of the United States or any national banking association designated as a tender agent for such Series of Bonds, and its successor or successors hereafter appointed in the manner provided in the applicable Supplemental Ordinance or Determination.

"Uncertificated Bond" means any Bond which is fully registered as to principal and interest and which is not represented by an instrument.

"UPS" means United Parcel Service and its successors.

"UPS Agreement" means that certain agreement between the City and United Parcel Service dated as of December 18, 1985, as amended from time to time.[1]

"Use and Lease Agreements" mean the Airline - Airport Use and Lease Agreements (the "Airline Agreements) currently in effect, if any and, as amended from time to time, between the City and the Scheduled Airlines providing for the construction of capital improvements to the Airport System, the financing of such improvements, the use and occupancy of portions of the Airport System by the Scheduled Airlines and the rates, rents and charges to be paid by the Scheduled Airlines for such use and occupancy as therein provided.

"Variable Rate Bond" means any Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

SUMMARY OF OPERATIVE PROVISIONS OF THE GENERAL ORDINANCE

The following is a summary of certain operative provisions of the General Ordinance. Reference should be made to the General Ordinance for a full and complete statement of its provisions and the meaning of any capitalized terms used herein but not otherwise defined.

Authorization, Scope and Purpose; Effective Date

The General Ordinance was enacted pursuant to the provisions of The First Class City Revenue Bond Act for the purpose of amending and restating in full, the General Airport Revenue Bond Ordinance of 1978, approved on March 16, 1978, as supplemented and amended. The General Ordinance became effective immediately and without any further action by City Council upon the consent of the Holders of at least 67 percent of the Outstanding Bonds (the "Effective Date"). On the Effective Date, the General Airport Revenue Bond Ordinance of 1978 and all supplements thereto were no longer in force or with any effect; provided that supplements to the General Airport Revenue Bond Ordinance of 1978 relating to Existing Bonds were deemed to be supplements to the General Ordinance on and after the Effective Date, to the extent such supplements were not inconsistent with the General Ordinance.

Concerning the Bonds

Form and Terms of Bonds. The aggregate principal amount of Bonds which may be issued or assumed, authenticated and delivered under the General Ordinance is unlimited, but prior to the issuance or assumption of such Series of Bonds, the City shall enact a Supplemental Ordinance authorizing such Series and the maximum aggregate principal amount of such Series and comply with all conditions in Section 5.04 of the General Ordinance (described under "Conditions and Provisions Relating to Issuing Bonds" hereinafter) and all conditions in the Act pertaining to the issuance or assumption of Airport System revenue bonds.

A Series of Bonds may be secured by a Credit Facility or Standby Agreement meeting the requirements of the General Ordinance and the applicable Supplemental Ordinance. In connection with the issuance of its Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the City also may enter into Qualified Swaps or Exchange Agreements if the Bond Committee determines that any such Qualified Swap or Exchange Agreement will assist the City in more effectively managing its interest costs. The City's payment obligation under any Qualified Swap (other than termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap) shall be made from the Sinking Fund and its payment obligation under any such Exchange Agreement shall be made in accordance with Section 4.06(e) of the General Ordinance. Unless otherwise acknowledged in writing by S&P, that execution and delivery of such Qualified Swap Agreement or Exchange Agreement will not, in and of itself, result in a downgrade, suspension or withdrawal of the credit ratings on any

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[1] The UPS Agreement expired on June 30, 2006 and is superseded by the Use and Lease Agreements defined herein.

Bonds Outstanding under the General Ordinance, the City will not enter into any Qualified Swap or Exchange Agreement.

Notwithstanding anything to the contrary in the General Ordinance, any Qualified Swap or Exchange Agreement entered into after June 15, 2005, may only be executed if authorized by Resolution of the City Council.

Issuance of Bonds

Purpose of Bonds; Combination of Projects for Financing Purposes. The Bonds issued or assumed under the General Ordinance shall be issued or assumed for the purpose (i) of paying the costs of Projects relating to the Airport System of the City, (ii) of reimbursing any fund of the City from which such costs shall have been paid or advanced together with interest thereon, (iii) of funding any of such costs for which the City shall have outstanding bond anticipation notes or other obligations, (iv) of refunding any Bonds or bonds of the City issued for the foregoing purposes, or (v) of refunding any General Obligation Bonds or NSS General Obligation Bonds.

Pledge of Revenues; Grant of Security Interest; Limitation on Recourse

The City pursuant to the General Ordinance pledges for the security and payment of all Bonds and thereby grants to Bondholders a lien on and security interest in: (i) all Project Revenues, (ii) amounts payable to the City under a Qualified Swap, (iii) except as provided in Section 4.09 of the General Ordinance (with respect to a non-parity reserve fund), all amounts on deposit in or credited to the Aviation Funds and (iv) proceeds of the foregoing ((i)-(iv) collectively are referred to herein as, the "Pledged Amounts"). The City may pledge Passenger Facility Charges pursuant to a Supplemental Ordinance and such Passenger Facility Charges, and proceeds thereof, shall constitute Pledged Amounts; provided, however, that if as a result of applicable law, rules and regulations, such Passenger Facility Charges may only be pledged to secure one or more specified Series of Bonds, such pledged Passenger Facility Charges, and proceeds thereof, shall constitute Pledged Amounts solely with respect to such Series of Bonds; provided, further, that Passenger Facility Charges shall not constitute Pledged Amounts or Amounts Available for Debt Service under the General Ordinance unless the City first receives written confirmation from all Rating Agencies then rating any Bonds Outstanding under the General Ordinance, that the pledge of Passenger Facility Charges in and of itself will not result in a downgrade, suspension or withdrawal of rating on any Bonds Outstanding under the General Ordinance, without taking into account Bonds the rating on which is based upon one or more Credit Facilities for such Bonds, provided that if all Bonds Outstanding under the General Ordinance are rated based upon a Credit Facility, then Passenger Facility Charges may be pledged only upon receipt by the City of written consent by the providers of all such Credit Facilities. To the extent that the Fiscal Agent maintains such Pledged Amounts, the Fiscal Agent shall hold and apply the security interest granted by the General Ordinance in the Pledged Amounts, in trust, for the equal and ratable benefit and security of all present and future Holders of Bonds issued pursuant to the provisions of the General Ordinance and each Supplemental Ordinance, without preference, priority or distinction of any one Bond over any other Bond; provided however, that the pledge of the General Ordinance may also be for the benefit of the provider of a Credit Facility, Standby Agreement or Qualified Swap (other than with respect to termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap), or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price of and interest on any Series of Bonds, on an equal and ratable basis with Bonds, to the extent provided by any Supplemental Ordinance or Determination.

Amounts constituting revenues, rents, rates, tolls or other charges generated or allocable to the Outside Terminal Area may be pledged under the General Ordinance as Project Revenues, only if there shall be delivered to the Fiscal Agent: (i) a written statement supported by appropriate schedules and summaries, that on the basis of historical, and estimated future annual financial operations of the Airport System, from which Amounts Available for Debt Service are to be derived, the Airport System will, in the opinion of the Consultant, yield Amounts Available for Debt Service for each of the five Fiscal Years (or three Fiscal Years in the event that the Consultant is professionally unable to provide an opinion for a period in excess of three Fiscal Years) ended immediately following the pledge of amounts described above, sufficient to comply with the Rate Covenant, and (ii) for so long as any of the Airline Agreements are in effect, with the prior written consent of the Scheduled Airlines to amend the Airline Agreements so that they reflect the foregoing modifications. For purposes of the statement in clause (i) above, the definition of "Operating Expenses" shall be deemed to include projected operating expenses of the Outside Terminal Area and Debt Service Requirements shall be deemed to include the debt service on any Bonds assumed or to be assumed under the General Ordinance, and any Qualified Swap, Credit Facility or Standby Agreement related thereto which is secured by a parity pledge of Project Revenues.

Neither the Bonds nor the City's reimbursement or other contractual obligations under any Credit Facility, Standby Agreement, Qualified Swap or Exchange Agreement shall constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any Constitutional or statutory provision or limitation of indebtedness. No Bondholder or beneficiary of any of the foregoing agreements shall ever have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal and redemption price of or interest on the Bonds or the making of any payments under the General Ordinance. The Bonds and the obligations evidenced thereby and by the foregoing agreements, shall not constitute a lien on any property of or in the City, except as set forth in this section.

Bonds to be Parity Bonds

All Bonds issued under the General Ordinance shall be parity Bonds equally and ratably secured by the pledge of and grant of the security interest described in the preceding section, except as provided for in the preceding section and the section below entitled "Sinking Fund Reserve Account" without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond over any other Bond or as between principal and interest.

Subordinate Obligations issued pursuant to a Subordinate Obligation Ordinance shall be secured (i) by a pledge of and grant of the security interest in Project Revenues to the extent required to be deposited in the Subordinate Obligations Fund and (ii) the amounts on deposit in or credited to the Subordinate Obligations Fund subject and subordinate to the payment of the amounts described in clauses (a) through (d) of the section below entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts" from Amounts Available for Debt Service and subject to the elimination of any deficiency in any fund or account established under the General Ordinance or under any Supplemental Ordinance.

Pursuant to the General Ordinance, the City reserves the right, and nothing in the General Ordinance shall be construed to impair such right, to finance improvements to the Airport System by the issuance of its General Obligation Bonds, NSS General Obligation Bonds, Special Facility Revenue Bonds or Subordinate Obligations under ordinances other than Supplemental Ordinances; provided that in the case of any Airport System revenue bonds or notes for the payment of which Project Revenues shall be used or pledged, payment of such Airport System revenue bonds shall be subject and subordinate to the payment from such Project Revenues of the payments described in the section below entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts" and subject to the elimination of any deficiency in any fund or account established under the General Ordinance or under any Supplemental Ordinance.

Establishment of Funds and Accounts

The following funds and accounts are established pursuant to the General Ordinance and shall be held by the City: (a) Aviation Operating Fund; (b) Aviation Capital Fund; and (c) Rebate Fund.

The following funds and accounts are established pursuant to the General Ordinance or, have heretofore been established and shall be maintained by the Fiscal Agent: (a) Sinking Fund and within such Sinking Fund, a Sinking Fund Reserve Account, a Debt Service Account and a Charges Account; (b) Subordinate Obligation Fund; and (c) Renewal Fund.

On the Effective Date of the General Ordinance, the City transferred or caused to be transferred or credited on its books and records all amounts maintained in or credited to the funds and accounts created under the General Airport Revenue Bond Ordinance of 1978 as set forth in the General Ordinance.

Nothing in the General Ordinance shall be construed to prevent the City from establishing, in connection with the issuance of one or more Series of Bonds, additional funds or accounts to be held for the benefit of one or more Series of Bonds issued under the General Ordinance, as set forth in Supplemental Ordinances; provided that, no such additional funds or accounts shall be established unless, in the opinion of Bond Counsel, establishment of additional funds or accounts would not (i) adversely affect the exclusion of interest on Bonds, if any, from gross income for federal income tax purposes, or (ii) materially adversely affect the security or interests of Bondholders. If required by law, rules or regulations, the City shall establish and maintain a separate account within the Sinking Fund for pledged Passenger Facility Charges.

Segregation of Aviation Funds; Deposit of Project Revenues into Aviation Operating Fund.

The Aviation Funds shall be held separate and apart from all other funds and accounts of the City and the Fiscal Agent and the funds and accounts therein shall not be commingled with, loaned or transferred among themselves or to any other City funds or accounts except as expressly permitted in the General Ordinance.

The City shall, upon receipt of any Project Revenues, deposit such Project Revenues into the Aviation Operating Fund. Any Passenger Facility Charges that constitute Amounts Available for Debt Service under the General Ordinance, shall be deposited directly into the appropriate account or subaccount of the Sinking Fund to the extent required to pay debt service on Bonds. The City and Fiscal Agent also shall cause to be deposited into the Aviation Operating Fund, Sinking Fund Reserve Account, Sinking Fund, and Renewal Fund proceeds of Bonds as designated by Supplemental Ordinance or Determination and any other funds directed to be deposited into the Aviation Operating Fund, Sinking Fund Reserve Account, Sinking Fund, or Renewal Fund by the City. The Fiscal Agent shall, at the written direction of the City, disburse from the Aviation Operating Fund the amounts and at the times specified below in the section entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts."

(i) If at any time sufficient moneys are not available in the Aviation Operating Fund to pay Operating Expenses and to make the transfers required by the section below entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts", or if a deficiency exists in the Aviation Capital Fund, then, subject to the requirements of (ii) and (iii) below, amounts on deposit in the Aviation Capital Fund and Renewal Fund may be loaned, at the written direction of the City, to the Aviation Operating Fund for the payment of such Operating Expenses and to make transfers required by the section below entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts", to the extent of the deficiency, and amounts on deposit in the Aviation Operating Fund and Renewal Fund may be loaned, at the written direction of the City, to the Aviation Capital Fund, to the extent of the deficiency. Notwithstanding anything to the contrary in this subparagraph (c), during any Fiscal Year, loans from the Aviation Capital Fund and loans from the Aviation Operating Fund pursuant to this section at any time shall not exceed in the aggregate 5% of the Division of Aviation's budgeted Operating Expenses net of Debt Service Requirements for such Fiscal Year.

(ii) Loans from the Aviation Capital Fund to the Aviation Operating Fund shall be made only to the extent of unencumbered capital amounts in the Aviation Capital Fund, and may be spent only for purposes authorized under applicable federal, state and local law. Any amounts borrowed from the Aviation Capital Fund shall be repaid on the earlier to occur of: (1) the date the funds are required by the Division of Aviation for purposes of the Aviation Capital Fund, (2) the date proceeds of Bonds, bonds or notes become available to the City for reimbursement of the expenditures made with the money borrowed, or (3) the last day of the twelve-month period beginning on the date the loan was made, in which case repayment may be made from the Renewal Fund;

(iii) Loans from the Aviation Operating Fund to the Aviation Capital Fund shall be made only to the extent of any surplus in the Aviation Operating Fund; provided that a Consultant delivers a written certification to the Fiscal Agent that the Division of Aviation will have, after making the loan, sufficient funds in the Aviation Operating Fund to pay all Operating Expenses when payable and the Debt Service Requirements up to and including the later of: the last day of the Fiscal Year in which the loan takes place or, the next interest payment date. Amounts loaned to the Aviation Capital Fund shall be used for the following purposes: (1) capital projects previously approved by the Scheduled Airlines in accordance with the Airline Agreements, or (2) capital projects for which an appropriation has been made. Any amounts borrowed shall be repaid no later than the date the funds are required by the Division of Aviation for purposes of the Aviation Operating Fund.

Transfer from Aviation Operating Fund to Other Funds and Accounts. Amounts on deposit in the Aviation Operating Fund Operating Fund shall be applied by the City or the Fiscal Agent, as the case may be, in the following manner and in the following order of priority:

(a) to pay such sums constituting Net Operating Expenses in a timely manner;

(b) for deposit in the appropriate accounts of the Sinking Fund, the amount necessary to provide for the timely payment of Debt Service Requirements;

(c) for deposit in the Sinking Fund Reserve Account or the appropriate subaccount thereof, the amount, if any, required to eliminate any deficiencies therein; provided, however, in the event there are insufficient amounts available to replenish all of the accounts or subaccounts within the Sinking Fund Reserve Account, the amount to be deposited in each Sinking Fund Reserve Account or subaccount shall be determined by dividing the Sinking Fund Reserve Requirement on the Outstanding Bonds secured thereby by the sum of the Sinking Fund Reserve Requirements on all Bonds Outstanding under the General Ordinance and multiplying that result by the total amount available to be deposited under this clause (c);

for deposit in the Renewal Fund, the amount, if any, required to eliminate any deficiency therein, and to pay amounts due and payable under Exchange Agreements;

to pay termination amounts to a Qualified Swap Provider due as a result of the termination of a Qualified Swap and termination amounts payable to JP Morgan Chase Bank – New York with respect to Payments upon Early Termination on the Interest Rate Swap Transaction effective June 15, 2005;

for deposit in the Subordinate Obligation Fund (i) the amount necessary to provide for the timely payment of the principal or redemption price of and interest on Subordinate Obligations, (ii) on or before the dates that other payments are due under any credit facility, liquidity facility or swap agreement constituting Subordinate Obligations, to deposit the amount necessary to make such payments, (iii) forward to the paying agent in respect of bond anticipation notes (payable by exchange for, or out of the proceeds of the sale of Subordinate Obligations) the amount necessary to provide for the timely payment of interest thereon (to the extent not capitalized), and (iv) deposit in the applicable subaccount of the sinking fund reserve account for a series of Subordinate Obligations the amounts, if any, required to eliminate any deficiency in such account;

to pay to the City the amount necessary to provide for the timely payment of the principal or redemption price of and interest on General Obligation Bonds; [2]

to pay any Interdepartmental Charges;

to pay to the City the amount necessary to provide for the timely payment of the principal or redemption price of and interest of NSS (non-self-sustaining) General Obligation Bonds;[2] and

Any amounts remaining in the Aviation Operating Fund following any transfer then required to be made pursuant to subparagraphs (a)-(i) above, may be used at the written direction of the City for any Airport System purposes. In the Airline Agreement, the City has provided its written direction to use such remaining amounts as provided in subparagraphs (j)-(m) below.

So long as any Bonds or bonds are outstanding, the deposit and application of Project Revenues for each Fiscal Year during the term of the Airline Agreement shall be governed by the General Ordinance. The City is expressly permitted in the General Ordinance to use amounts remaining in the Aviation Operating Fund following any transfers pursuant to subparagraphs (a)-(i) above for the Bond Redemption and Improvement Requirement, the O&M Requirement, the Airline Revenue Allocation, and City Revenue Allocation. Pursuant to Section 4.06 of the General Ordinance, any amounts remaining in the Aviation Operating Fund following any transfer then required to be made pursuant to subparagraphs (a)-(i) above may be used for any Airport System purposes at the written

[2] No general obligation debt of the City described in paragraphs (g) and (i) above are currently outstanding.

direction of the City. The City has directed that such amounts remaining will be applied or credited in the following manner:

Bond Redemption and Improvement Account. The Bond Redemption and Improvement Account is available for use by City for the payment of deficiencies with respect to the Debt Service Requirements or deficiencies with respect to the Sinking Fund Reserve Requirement as provided under the General Ordinance. If no such deficiencies exist, City is not in default under the General Ordinance and a Majority-in Interest of the Eligible Signatory Airlines, determined pursuant to the Airfield Area MII Formula, mutually agree (whose agreement will not be unreasonably withheld), the Division of Aviation can use such amounts for repair, renewals, replacements or alterations to the Airport System; redemption of Bonds; costs of Capital Projects or equipment; purchase of Bonds; arbitrage rebate pursuant to Section 148(f) of the Code or for any lawful Airport System purposes. The Bond Redemption and Improvement Requirement shall mean an amount not to exceed the lesser of (i) the amount of Debt Service Reserve Surety Bonds fulfilling the City's Sinking Fund Reserve Requirements, or (ii) such dollar amount required to maintain a dollar balance in the Bond Redemption and Improvement Account equal to twenty five percent (25%) of the Debt Service Requirement. The Bond Redemption and Improvement Account may be funded with amounts remaining, if any, following any and all transfers required by subparagraphs (a)-(i) above.

> Notwithstanding the foregoing, for each and every Fiscal Year during the term of Airline Agreement, the interest earned on the balance of the Bond Redemption and Improvement Account shall first be used to reduce the Bond Redemption and Improvement Requirement for the following Fiscal Year and the remaining interest and any excess balance in the Bond Redemption and Improvement Account due to a reduction in the Debt Service Requirement, if any, shall be transferred to the Aviation Operating Fund and then allocated to the Airport Cost Centers in proportion to the Debt Service Requirement for each such Airport Cost Center as a Non-Airline Revenue.
>
> The net Bond Redemption and Improvement Requirement shall be allocated on the basis of Debt Service Requirements to the Airport Cost Centers.

O&M Account. The O&M Account is available for use by City for the payment of Operating Expenses in City's sole discretion in the event the then current Airport Revenues allocated to Operating Expenses in the Annual Budget are deemed to be insufficient. If a Majority-in Interest of the Eligible Signatory Airlines, determined pursuant to the Airfield Area MII Formula, and City mutually agree (whose agreement will not be unreasonably withheld), any balance then can be used for repairs, renewals, replacements, alterations, the redemption of Bonds or bonds or for any Airport System purposes. Notwithstanding the foregoing, City has no reasonable expectation that funds in the O&M Account will be used to pay Debt Service since the account is being created to pay Operating Expenses. The O&M Account may be funded with amounts remaining, if any, following any and all transfers required by subparagraphs (a)-(j) above. Thereafter, the O&M Requirement shall mean an amount not to exceed one million dollars ($1,000,000) per Fiscal Year to be deposited in the O&M Account to maintain a balance equal to ten percent (10%) of Operating Expenses.

> Notwithstanding the foregoing, for each and every Fiscal Year during the term of the Agreement, the interest earned on the balance of the O&M Account shall first be used to reduce the O&M Requirement for the following Fiscal Year and the remaining interest and any excess balance in the O&M Account due to a reduction in Operating Expenses, if any, shall be transferred to the Aviation Operating Fund, then allocated to the Airport Cost Centers in proportion to the Operating Expenses for each such Airport Cost Center as a Non-Airline Revenue.
>
> The net O&M Requirement shall be allocated on the basis of Operating Expenses to the Airport Cost Centers.

Airline Revenue Allocation. The Airline Revenue Allocation shall be calculated from any amounts remaining in the Aviation Operating Fund if any, following any and all transfers required by subparagraphs (a)-(k) above. During the term of the Airline Agreement, the Airline Revenue Allocation shall be equal to fifty percent (50%) of the prior Fiscal Year's total net revenue from the Outside Terminal Areas Cost Center reduced by an amount of up to seven million dollars ($7,000,000), to the extent net revenue from the Outside Terminal Areas Cost Center equals or exceeds seven million dollars ($7,000,000). The Airline Revenue Allocation, if any, shall first be credited to the Other Buildings and Areas Cost Center to determine the Airfield Area Requirement for such Fiscal Year and then, if the Airline Revenue Allocation exceeds the deficit of the Other Buildings and Areas Cost Center, the excess shall be allocated pro rata to the Airfield Area Cost Center and Terminal Area Cost Center based on airline revenue allocable to such cost center.

Discretionary Account. Following any and all transfers required by subparagraphs (a)-(l) above, any amounts remaining in the Aviation Operating Fund, less the Airline Revenue Allocation shall be deposited in the Discretionary Account to be used at the written direction of the City for any Airport System purposes.

Sinking Fund. Except as set forth in Sections 4.02, 4.04 and 4.09 of the General Ordinance, the Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the Holders of all Bonds from time to time Outstanding, Credit Facilities, Standby Agreements, and Qualified Swap Agreements secured by a parity pledge of Project Revenues and payable pursuant to subparagraph (c) of the section above entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts", and each account therein may be invested and reinvested on a consolidated basis in accordance with Section 9 of the Act.

The Fiscal Agent, as directed by the City by Supplemental Ordinance, Determination or other written direction, shall pay out of the Debt Service Account of the Sinking Fund to the designated paying agent or agents (i) on or before each interest payment date for any of the Bonds the amount required for the interest payable on such date; and (ii) on or before each principal, redemption or prepayment date for any Bonds, the amount required for the principal, redemption or prepayment payable on such date, and (iii) on or before the respective due dates the amounts, if any, due under any Swap Agreements (other than termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap). Such amounts shall be applied by the designated paying agent or agents on the due dates thereof. The Fiscal Agent shall also pay out of the Debt Service Account of the Sinking Fund the accrued interest included in the purchase price of Bonds purchased for retirement and on or before the due dates any amounts owing by the City under any Credit Facility or Standby Agreement, payable from the Debt Service Account, on account of advances to pay principal of or interest or redemption premium on Bonds.

Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) if so directed by the City, shall be applied by the Fiscal Agent, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to the purchase of Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established. All purchases of Bonds pursuant to this paragraph shall be made at prices not exceeding the applicable sinking fund redemption price of such Bonds plus accrued interest, and such purchases shall be made by the Fiscal Agent as directed by the City. As soon as practicable after the 42nd day preceding the due date of any such Sinking Fund Installment, the Fiscal Agent shall proceed to call for redemption, by giving notice as provided in Section 6.03 of the General Ordinance, on such due date Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Bonds purchased pursuant to Section 4.10 of the General Ordinance which the City has directed the Fiscal Agent to apply as a credit against such Sinking Fund Installment as provided in Section 4.08 thereof. The Fiscal Agent shall pay out of the Sinking Fund to the appropriate paying agent or agents, on or before such redemption date (or maturity date) the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing) and such amount shall be applied by such paying agent or agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the City from Amounts Available for Debt Service, or other amounts available therefor.

In the event of the refunding of any Bonds, the Fiscal Agent shall, if the City so directs in writing, withdraw from the Sinking Fund all, or any portion of, the amounts accumulated therein with respect to principal or interest on the Bonds being refunded and deposit such amounts with itself or another financial institution serving as escrow agent to be held for the payment of the principal or redemption price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to Section 11.01 of the General Ordinance. In the event of a refunding, the City may also direct the Fiscal Agent to withdraw from the Sinking Fund all, or a portion of, the amounts accumulated therein with respect to principal and interest on the Bonds being refunded and deposit such amounts in any fund or account established under the General Ordinance.

If any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise or at the date fixed for redemption thereof, if moneys sufficient to pay such Bond shall have been deposited with the Fiscal Agent, it shall be the duty of the Fiscal Agent to hold such moneys, without liability to the City, any Bondholder or any other person for interest thereon, for the benefit of the owner of such Bond. Notwithstanding the foregoing, any moneys in the Sinking Fund for the payment of the interest, principal or redemption premium of Bonds unclaimed for two (2) years after the due date shall be repaid to the Aviation Operating Fund but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in the Sinking Fund; provided, however, that such repayment shall not be made unless, at the time of such repayment, there shall exist no deficiency in any fund or account established under the General Ordinance or any Supplemental Ordinance.

The Fiscal Agent shall pay, solely out of the Charges Account to the appropriate payees any fees, expenses and other amounts due and payable from the Charges Account, under any Credit Facility or Standby Agreement, with respect to Bonds, to the extent such amounts are not paid from the Debt Service Account.

Credits Against Sinking Fund Installments. If at any time Bonds of any Series or maturity for which Sinking Fund Installments shall have been established are purchased or redeemed other than pursuant to the third paragraph of the section above entitled "Sinking Fund" or are deemed to have been paid pursuant to Section 11.01 of the General Ordinance and, with respect to such Bonds which have been deemed paid, irrevocable instructions have been given to the Fiscal Agent to redeem or purchase the same on or prior to the due date of the Sinking Fund Installment to be credited under this section, the City may from time to time and at any time by written notice to the Fiscal Agent specify the portion, if any, of such Bonds so purchased, redeemed or deemed to have been paid and not previously applied as a credit against any Sinking Fund Installment which are to be credited against future Sinking Fund Installments. Such notice shall specify the amounts of such Bonds to be applied as a credit against such Sinking Fund Installment or Sinking Fund Installments and the particular Sinking Fund Installment or Installments against which such Bonds are to be applied as a credit; provided, however that none of such Bonds may be applied as a credit against a Sinking Fund Installment to become due less than forty-two (42) days after such notice is delivered to the Fiscal Agent. All such Bonds to be applied as a credit shall be surrendered to the Fiscal Agent for cancellation on or prior to the due date of the Sinking Fund Installment against which they are being applied as a credit. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

Sinking Fund Reserve Account. There is created under the General Ordinance a parity Sinking Fund Reserve Account within the Sinking Fund to be known as the "Parity Sinking Fund Reserve Account." Unless the applicable Supplemental Ordinance designates a Non-Parity Sinking Fund Reserve Requirement, the City shall deposit, or cause to be deposited in the Parity Sinking Fund Reserve Account from the proceeds of the sale of each Series of Bonds, or from other amounts available therefor, an amount which, when added to the existing balance in the Parity Sinking Fund Reserve Account, will be equal to the Parity Sinking Fund Reserve Requirement immediately after the issuance of such Series of Bonds. All amounts in the Parity Sinking Fund Reserve Account shall be available to pay the principal, redemption price or interest on any other Series of Bonds secured by the Parity Sinking Fund Reserve Account.

If a Supplemental Ordinance for a Series of Bonds designates a Non-Parity Sinking Reserve Requirement for such Series of Bonds, the Supplemental Ordinance pursuant to which such Bonds were issued shall either create a separate Non-Parity Sinking Fund Reserve Subaccount, or create or designate a previously created subaccount within the Sinking Fund Reserve Account. Notwithstanding anything to the contrary in this section, the City shall not create a Non-Parity Sinking Fund Reserve Account or designate a Non-Parity Sinking Fund Reserve Requirement unless the City first obtains written confirmation from S&P (such confirmation shall only be required if S&P is then rating Bonds Outstanding under the General Ordinance) that such action, in and of itself, will not result in a downgrade, suspension or withdrawal of the credit rating on any Bonds Outstanding under the General Ordinance. The City shall, under direction of the Director of Finance, deposit in the specified Non-Parity Sinking

Fund Reserve Subaccount created pursuant to any Supplemental Ordinance, the amount required to be deposited pursuant to the Supplemental Ordinance for such Series of Bonds. The money and investments in each Non-Parity Sinking Fund Reserve Subaccount shall be held and maintained in an amount equal at all times to the applicable Non-Parity Sinking Fund Reserve Requirement for such Series secured thereby, as provided in the Supplemental Ordinance authorizing such Series of Bonds. All amounts in each Non-Parity Sinking Fund Reserve Subaccount shall be available solely to secure the Bonds specified in the Supplemental Ordinance pursuant to which such subaccount was created.

If at any time and for any reason, the moneys in the Debt Service Account of the Sinking Fund shall be insufficient to pay as and when due, the principal of (and premium, if any) or interest on any Bond or Bonds or other obligations payable from the Debt Service Account then due (including any amounts payable out of the Sinking Fund under Swap Agreements), the Fiscal Agent is authorized and directed (i) with respect to Bonds secured by the Parity Sinking Fund Reserve Account, to withdraw an amount equal to the deficiency from the Parity Sinking Fund Reserve Account, and use such amount to pay debt service on the Bonds secured thereby, and (ii) with respect to Bonds secured by a Non-Parity Sinking Fund Reserve Subaccount, to withdraw an amount equal to the deficiency from such Non-Parity Sinking Fund Reserve Subaccount and use such amount to pay debt service on the Bonds secured thereby. If by reason of such withdrawal or for any other reason there shall be a deficiency in the Sinking Fund Reserve Account or any subaccount thereof, the City covenants to restore such deficiency promptly from Project Revenues, in no event later than the next interest payment date for Bonds Outstanding under the General Ordinance.

Any money in the Sinking Fund Reserve Account or any subaccount thereof in excess of the applicable Sinking Fund Reserve Requirement shall be transferred on an annual basis to the Debt Service Account of the Sinking Fund at the written direction of the City.

Notwithstanding the foregoing provisions, in lieu of the required deposits into the Sinking Fund Reserve Account or any subaccount thereof, the City may cause to be deposited into any account or subaccount of the Sinking Fund Reserve Account an unconditional and irrevocable surety bond or an insurance policy payable to the Fiscal Agent for the account of the Holders of the Series of Bonds in question or an irrevocable letter of credit in an amount equal to the difference between the Sinking Fund Reserve Requirement for the related Series of Bonds and the remaining sums, if any, then on deposit in the applicable account or subaccount of the Sinking Fund Reserve Account. The surety bond, insurance policy or letter of credit (each, a "Sinking Fund Reserve Facility") shall be payable (upon the giving of notice as required thereunder) on any payment date on which moneys will be required to be withdrawn from the applicable account or subaccount of the Sinking Fund Reserve Account and applied to the payment of debt service on the related Series of Bonds and such withdrawal cannot be met by amounts on deposit in the applicable account or subaccount of the Sinking Fund Reserve Account or provided from amounts held in any other Fund under the General Ordinance that are available to pay debt service on such Series of Bonds.

The insurer providing such surety bond or insurance policy shall be an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in not lower then the second highest rating category (without regard to gradations) by Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is, at the time in question, rating Bonds Outstanding under the General Ordinance). The letter of credit issuer shall be a bank or trust company which is rated not lower than the second highest rating category (without regard to gradations) by Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is, at the time in question, rating Bonds Outstanding under the General Ordinance), and the letter of credit itself shall be rated in at least the second highest category of such Rating Agencies. If a disbursement is made pursuant to a Sinking Fund Reserve Facility provided pursuant to this subsection, the City shall be obligated either (i) to reinstate the maximum limits of such Sinking Fund Reserve Facility or (ii) to deposit into the applicable account or subaccount of the Sinking Fund Reserve Account, funds in the amount of the disbursement made under such Sinking Fund Reserve Facility, or a combination of such alternatives, as shall provide that the amount in the applicable account or subaccount of the Sinking Fund Reserve Account equals the Sinking Fund Reserve Requirement for the related Series of Bonds within a time period not longer than would be required to restore the applicable account or subaccount of the Sinking Fund Reserve Account by operation of this section and from the same source of funds as provided herein. Upon the occurrence of any reduction or suspension of any credit rating with respect to such Sinking Fund Reserve Facility (or the provider thereof) required by this section, the City shall replace the Sinking Fund Reserve Facility with a new one that meets the aforesaid rating requirements; provided however that with respect to any letter of credit that is a Sinking Fund Reserve Facility, the City may in lieu of replacing such Sinking Fund Reserve Facility, cause the Sinking Fund Reserve Facility to be drawn upon to the full extent possible and deposit such monies in the subaccount of the Sinking Fund Reserve Account in which the Sinking Fund Reserve Facility was held. In addition, 30 days prior to the expiration date of any Sinking Fund Reserve Facility, that is a letter of credit the City shall either extend the term of such Sinking Fund Reserve Facility by at least one year or deposit cash in the face amount of the Sinking Fund Reserve Facility in question in the appropriate account or subaccount of the Sinking Fund Reserve Account in replacement of such Sinking Fund Reserve Facility, and if the City fails to take either of such actions by such date, the Fiscal Agent shall within five Business Days thereafter draw down upon the Sinking Fund Reserve Facility that is a letter of credit to the full extent possible and deposit the proceeds of such draw in the appropriate subaccount of the Sinking Fund Reserve Account.

Subordinate Obligation Fund. Subject to the third paragraph of this section, the Fiscal Agent upon direction of the Director of Finance, shall apply amounts in the Subordinate Obligation Fund to the payment of the principal of, redemption premium, if any, and interest on Subordinate Obligations and to payments due under any credit facility, qualified swap or standby agreement in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided, in the Subordinate Obligation Ordinance or Supplemental Ordinance or Determination.

At any time and from time to time the City may deposit in the Subordinate Obligation Fund for the payment of Subordinate Obligations amounts received from any source other than Project Revenues which is not inconsistent with the General Ordinance, any Supplemental Ordinance or any Subordinate Obligation Ordinance or Determination.

If at any time the amounts in the Sinking Fund shall be less than the current requirement of such fund pursuant to subparagraphs (b) and (c) of Section 4.06 of the General Ordinance and there shall not be on deposit in the Sinking Fund Reserve Account, the Aviation Operating Fund or the Renewal Fund available moneys sufficient to cure such deficiency, then the Fiscal Agent shall withdraw from the Subordinate Obligation Fund and deposit in the Sinking Fund the amount necessary (or all the moneys in said fund, if less than the amount necessary) to eliminate such deficiency.

Any moneys in the Subordinate Obligation Fund for the payment of Subordinate Obligations, unclaimed for two (2) years after the due date shall be repaid to the City but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in the Subordinate Obligation Fund; provided, however, that such repayment shall not be made unless, at the time of such repayment, there shall exist no deficiency in any fund or account established under the General Ordinance, any Supplemental Ordinance or any Subordinate Obligation Ordinance.

Aviation Capital Fund. Proceeds of Bonds issued for capital purposes shall be deposited into the Aviation Capital Fund and disbursed according to established procedures of the City for purposes permitted by the Act, other applicable law and the Bonds and such other purposes as are permitted under the General Ordinance.

Renewal Fund. All amounts credited to the Renewal Fund on or after the Effective Date shall be maintained in accordance with this section. Payments from the Renewal Fund shall be made only for the following purposes: (a) to pay the cost of major repairs, renewals and replacements of Airport System facilities for purposes of meeting unforeseen contingencies and emergencies arising from the operation of the Airport System, or (b) to pay expenses chargeable as Operating Expenses if Project Revenues are insufficient, for whatever reason to cover such Operating Expenses in any Fiscal Year, (c) to pay debt service on the Bonds, or (d) to repay any loan in accordance with Section 4.05(c)(ii)(3) of the General Ordinance.

The City shall withdraw from the Renewal Fund the sum or sums necessary to make such payments and shall apply the same to such purpose. If by reason of such withdrawal or any other reason, funds on deposit in the Renewal Fund are less than the Renewal Fund Requirement, the City shall deposit in the Renewal Fund the amount of such deficiency, but only from Project Revenues as the same shall become available, by regular quarterly deposits which shall not be required to exceed the total of $500,000 in any Fiscal Year, and the availability of which shall be determined in accordance with the priorities specified in the section herein entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts."

If at any time the moneys and investments in the Renewal Fund are in excess of the Renewal Fund Requirement, the amount of such excess on order of the Director of Finance, shall be paid over by the City to the Debt Service Account of the Sinking Fund, to be used and applied as are all other moneys deposited in or on deposit therein.

Rebate Fund. The Rebate Fund shall be maintained by the City for so long as any Series of Bonds is Outstanding, and for sixty (60) days thereafter (or such other period as may be specified by the Code and applicable regulations), for the purpose of paying to the United States Treasury the amount required to be rebated pursuant to Section 148(f) of the Code. All amounts in the Rebate Fund, including income earned from investment of amounts in the Rebate Fund, shall be held by the City free and clear of the lien created by the General Ordinance.

Management of Funds and Accounts. The moneys on deposit in the funds and accounts established under the General Ordinance, to the extent not currently required, shall be invested and secured as required by Section 9 of the Act, all at the direction and under the management of the Director of Finance or such other chief fiscal officer of the City as may hereinafter be established.

Investment of Funds and Accounts. All moneys deposited in any fund or account established under the General Ordinance or under any Supplemental Ordinance may be invested by the City or by the Fiscal Agent, at the oral (confirmed in writing promptly thereafter) or written direction of the City, in any Permitted Investments (except as otherwise provided in the General Ordinance with respect to the Sinking Fund, Sinking Fund Reserve Account and Rebate Fund); provided that any investments with respect to amounts on deposit in the Sinking Fund (other than the Sinking Fund Reserve Account) shall mature or shall be subject to redemption by the holder thereof upon demand at par no later than the date when such amounts are needed for the purposes of such funds or accounts.

Interest earnings on amounts on deposit (i) in the Aviation Operating Fund shall be credited to the Aviation Operating Fund; (ii) in the Sinking Fund shall be credited to the Sinking Fund to the extent needed to meet Debt Service Requirements and additional interest earnings may be credited to the Aviation Operating Fund so long as such credit will not adversely impact the tax-exempt status of tax-exempt Bonds Outstanding under the General Ordinance; (iii) in the Sinking Fund Reserve Account shall be credited to the Sinking Fund Reserve Account to the extent needed to satisfy the Sinking Fund Reserve Requirements and additional interest earnings shall be credited to the Debt Service Account of the Sinking Fund; (iv) in the Subordinate Obligation Fund shall be credited to the Subordinate Obligation Fund to the extent needed to satisfy payment provisions for the Subordinate Obligations and additional interest earnings may be credited to the Aviation Operating Fund; (v) in the Renewal Fund, shall be credited to the Renewal Fund to the extent needed to meet the Renewal Fund Requirements and any additional interest earnings shall be credited to the Debt Service Account of the Sinking Fund; (vi) in the Aviation Capital Fund shall be credited to the appropriate account of the Aviation Capital Fund; and (vii) in the Rebate Fund shall be credited to the Rebate Fund.

Valuation of Funds and Accounts. In computing the assets of any fund or account established under the General Ordinance, investments and accrued interest thereon shall be deemed a part thereof. Such investments shall be valued on June 30 of each Fiscal Year at the lower of the cost or current market value thereof if the applicable maturity is more than one (1) year and at par if the applicable maturity is equal to or less than one (1) year plus accrued interest, or at the redemption price thereof, if then redeemable at the option of the holder; provided that investments in any reserve fund or reserve account of the Sinking Fund established pursuant to a Supplemental Ordinance may be valued as provided in the Supplemental Ordinance establishing it. The annual valuation shall apply for all purposes of the General Ordinance except if Bonds are issued or a fund deficit occurs based on the annual valuation, in which cases a valuation shall be made on the date Bonds are issued or the deficit is eliminated, as the case may be.

Covenants of City

Rate Covenant.

The City covenants with Bondholders that it will, at a minimum, impose, charge and recognize as revenues in each Fiscal Year such rentals, charges and fees as shall, together with that portion of the Aviation Operating Fund balance attributable to Amounts Available for Debt Service and carried forward at the beginning of such Fiscal Year and together with all other Amounts Available for Debt Service to be received in such Fiscal Year, equal to not less than the greater of:

The sum of:

all Net Operating Expenses payable during such Fiscal Year;

150% of the amount required to pay the Debt Service Requirements during such Fiscal Year;

the amount, if any, required to be paid into the Sinking Fund Reserve Account during such Fiscal Year; and

the amount, if any, required to be paid into the Renewal Fund during such Fiscal Year; or

The sum of:

all Operating Expenses payable during such Fiscal Year; and

(A) all Debt Service Requirements during such Fiscal Year (B) all debt service requirements during such Fiscal Year in respect of all outstanding General Obligation Bonds issued for improvements to the Airport System and all outstanding NSS General Obligation Bonds issued for improvements to the Airport System; (C) all debt service requirements during such Fiscal Year on Subordinate Obligations and any other subordinate indebtedness secured by any Amounts Available for Debt Service, (D) all amounts required to repay loans among funds made pursuant to Section 4.05(c) of the General Ordinance, (E) the amount, if any, required to be paid into the Sinking Fund Reserve Account or Renewal Fund during such Fiscal Year and (F) all amounts required to be paid under Exchange Agreements.

Provided, however, if (i) the written election of the City is obtained and filed with the Fiscal Agent, and (ii) so long as any Airline Agreements or the UPS Agreement is in effect, the prior written consent of the Scheduled Airlines and UPS (provided that the written consent of UPS shall be obtained only to the extent required, as determined in the sole discretion of the City) to amend the Airline Agreements is obtained, then the foregoing rate covenant shall no longer be effective, and the rate covenant in the section below entitled "Alternative Rate Covenant" shall be substituted in lieu of the foregoing for all purposes.

(1) In the event that any Bonds Outstanding are, or any proposed series of Bonds, are to be

Balloon Bonds, then Debt Service Requirements on such Balloon Bonds shall be calculated for purposes of projecting compliance with this section or the section below entitled "Conditions of and Provisions Relating to Issuing Bonds", or for purposes of determining the Sinking Fund Reserve Requirement for a particular series of Balloon Bonds, whether for any period prior to or after the date of calculation, as follows:

If such Balloon Bonds are not Capital Appreciation Bonds, by assuming that such Bonds will be amortized on the basis of level debt service over the Assumed Amortization

Period beginning on the date on which principal on Balloon Bonds is payable and that such Bonds bear interest at the Assumed Interest Rate; and

If such Balloon Bonds are Capital Appreciation Bonds, by assuming that the Accreted Value of such Bonds at maturity is to be amortized on the basis of level principal payments over the Assumed Amortization Period.

The City shall be entitled to assume, in calculating Debt Service Requirements on any Variable Rate Bonds for purposes of projecting compliance with this section or funding the Sinking Fund Reserve Account, that such Variable Rate Bonds will bear interest at a rate equal to (i) the average interest rate on the Variable Rate Bonds during the period of twenty-four (24) consecutive calendar months preceding the date of calculation or (ii) if the Variable Rate Bonds were not Outstanding during the entire twenty-four (24) month period, the average interest rate on the Variable Rate Bonds since their date of issue or (iii) such other rate as may be specified in a Supplemental Ordinance or Determination.

If a series of Bonds to be issued will be Variable Rate Bonds, then for purposes of calculating the Debt Service Requirements on the proposed series of Bonds under this section or the section below entitled "Conditions of and Provisions Relating to Issuing Bonds", the rate of interest to be borne by such Variable Rate Bonds shall be deemed to be the Bond Buyer's 25 Bond Revenue Index, or any successor standard index for long-term, tax exempt, investment grade revenue bonds for a date within 90 days of the issuance of such Variable Rate Bonds.

The City represents that it has, by its Code of Ordinances, as amended, authorized the imposition of rents, rates, fees and charges by the Department of Commerce by contract, lease or otherwise sufficient from time to time to comply with the Rate Covenant and covenants with the Holders of Bonds that it will not repeal or materially adversely dilute or impair such authorization.

Operation of System

The City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as such Bonds shall remain Outstanding it will continuously maintain the Airport System or cause the Airport System to be maintained in good condition and will continuously operate the Airport System or cause the Airport System to be operated; provided that the City may dispose of such portions of the Airport System which are no longer necessary or required for Airport purposes; and provided further that this covenant shall not apply to any portion of the Airport System assigned or conveyed pursuant to Article IX of the General Ordinance.

Conditions and Provisions Relating to Issuing Bonds

The City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as any such Bonds shall remain Outstanding it will not issue or assume any Series of Bonds thereunder without first complying with the conditions set forth in subparagraphs (a) through (d) below and further covenants to comply with the provisions of subparagraphs (e) through (h) below:

Enactment of Supplemental Ordinance. Prior to the issuance or assumption of any Series of Bonds (but only following the filing of the report and opinion required by Section 8 of the Act) the City shall enact a Supplemental Ordinance meeting the requirements of Section 5.04(a) of the General Ordinance.

Filing of Transcript. Prior to the issuance or assumption of any Series of Bonds, the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such Series of Bonds meeting the requirements of Section 5.04(b) of the General Ordinance.

Delivery of Consultant's Report. Prior to the issuance or assumption of any Series of Bonds pursuant to a Supplemental Ordinance (except that no Consultant's report shall be required in the case of issuance of any Series of Bonds for the purpose of refunding another Series of Bonds so long as the City certifies in writing that the Debt Service Requirements in any year on the proposed refunding Bonds do not exceed the Debt Service Requirements in any such year on the Bonds to be refunded), the City shall cause to be filed with the Fiscal Agent a report of Consultants setting forth the qualifications of the Consultants and containing, among other things, a statement, supported by appropriate schedules and summaries, that, on the basis of historical and estimated future annual financial operations of the Aviation System from which pledged Amounts Available for Debt Service are to be derived, (1) for either the immediately preceding Fiscal Year of the City, or any period of 12 full consecutive months during the 18-month period preceding the delivery of the Consultant's report, the Aviation System yielded pledged Amounts Available for Debt Service sufficient to satisfy the Rate Covenant, (2) no deficiency exists in the Sinking Fund Reserve Account and (3) the Airport System will, in the opinion of the Consultants, yield pledged Amounts Available for Debt Service for each of the five Fiscal Years (or three Fiscal Years in the event that the Consultant is professionally unable to provide an opinion for a period in excess of three Fiscal Years) ended immediately following the issuance or assumption of the Bonds, sufficient to comply with the Rate Covenant.

Opinions of Counsel. Upon the issuance of any Series of Bonds, the City shall cause to be filed with the Fiscal Agent (i) an opinion of Bond Counsel to the effect that (1) the Bonds have been duly issued or assumed for a permitted purpose under the Act and the General Ordinance and (2) all conditions precedent to the issuance or assumption of the Bonds pursuant to the Act and the General Ordinance have been satisfied, and (ii) an opinion of the City Solicitor to the effect that (1) all documents delivered by the City in connection with the issuance of the Bonds have been duly and validly authorized, executed and delivered, (2) such execution and delivery and all other actions taken by the City in connection with the issuance of the Bonds have been duly authorized by all necessary actions of City Council, and (3) nothing has come to their attention that would lead them to believe that an event of default under the General Ordinance has occurred, and is continuing. The Fiscal Agent may conclusively rely upon such opinions.

Execution of Documents. The Mayor, the City Solicitor, the City Controller, the Director of Finance and such other officers of the City as may be appropriate are authorized in connection with the issuance or assumption of any Series of Bonds under the General Ordinance to prepare, execute and file on behalf of the City such statements, documents, certificates or other material as may accurately and properly reflect the financial condition of the City or other matters relevant to the issuance or payment of such Bonds and as may be required or appropriate to comply with applicable State or Federal laws or regulation.

Disposition of Proceeds. Unless otherwise provided in the applicable Supplemental Ordinance or Determination, accrued interest on Bonds shall be deposited in the Sinking Fund, an amount sufficient to satisfy the requirements of Section 4.09 of the General Ordinance shall be deposited in the Sinking Fund Reserve Account and the balance of the proceeds of the Bonds shall be deposited in the Bond Proceeds Account of the Aviation Capital Fund and shall be disbursed therefrom, in accordance with established procedures of the City, as provided in Section 4.11 of the General Ordinance, provided, however, that if such Bonds shall be issued for the purpose of funding or refunding Bonds previously issued by the City such proceeds shall, unless otherwise directed by the Supplemental Ordinance, be deposited in a special fund or account to be established with and held by the Fiscal Agent or another entity acting as an escrow agent and invested (if appropriate) and disbursed under the direction of the Director of Finance for the purpose of retiring the Bonds being funded or refunded.

Refunding Bonds. If the City shall, by Supplemental Ordinance, authorize the issuance of refunding Bonds pursuant to Section 10 of the Act, in the absence of specific direction or inconsistent authorization in the Supplemental Ordinance, the Director of Finance is authorized by the General Ordinance in the name and on behalf of the City to take all such action, including the irrevocable pledge of proceeds and the income and profit from the investment thereof for the payment and redemption of the refunded Bonds, bonds or notes including the publication of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the funding or refunding and to comply with the requirements of Section 10 of the Act.

Subordinate Obligations. The City may, at any time, or from time to time, issue Subordinate Obligations for any purpose permitted under the Act pursuant to a Subordinate Obligation Ordinance. Subordinate Obligations shall be payable out of, and may be secured by a security interest in and a pledge and assignment of Project Revenues; provided, however, that any such security interest in and pledge and assignment of Project Revenues and amounts on deposit in the Subordinate Obligation Fund shall be, and shall be expressed to be, subordinate in all respects to the security interest in, and pledge and assignment of the Pledged Amounts for the security of Bonds.

Delivery of Reports

The City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as such Bonds shall remain Outstanding it will, within one hundred twenty (120) days following the close of each Fiscal Year of the City or as soon thereafter as is practicable (not exceeding one hundred fifty (150) days following the close of each Fiscal Year), file with the Fiscal Agent a report of the operation of the Airport System for such Fiscal Year, including a statement of revenue, expenses, and net revenue (in each case not inconsistent with the statement of income, expenses, and other accounts of the City audited by the City Controller) prepared by the City or its Division of Aviation in accordance with the accrual basis of accounting adjusted to meet the particular requirements of the Airline Agreements and the General Ordinance consistently applied, showing compliance with the Rate Covenant and containing any required information as to the Cost Centers prepared in accordance with the Cost Accounting System, accompanied by a certificate of the Director of Commerce that the Airport System is in good operating condition and by a certificate of the Director of Finance that as of the date of such report the City has complied with all of the covenants in the General Ordinance and in all Supplemental Ordinances on its part to be performed. Such report shall be furnished to the Fiscal Agent in such reasonable number of copies as shall be required to meet the written requests of Bondholders therefor on a first come first served basis.

Disposition of Insurance Proceeds and Proceeds from the Sale of Assets

In the event that any assets of the Airport System are destroyed or the City shall sell any assets of the Airport System (except in the event of the sale or transfer of all or substantially all of the assets of the Airport System under Section 9.01 of the General Ordinance), the City shall apply such amounts, at the direction of the Director of Finance or such other chief fiscal officer of the City as may hereinafter be established (i) to the retirement of the principal amount of debt incurred in respect to the Airport System; (ii) to the reconstruction, repair or replacement of assets of the Airport System; (iii) to the making of capital additions or improvements to the Airport System or (iv) to the deposit in one of the Aviation Funds for any other Airport System purpose; provided that, if the insurance proceeds or the proceeds from the sale of assets are less than or equal to one and five-tenths percent (1.5%) of the depreciated value of property, plant and equipment of the Airport System, as shown on the financial statements of the City for the preceding Fiscal Year, such amounts may be used for any Airport System purpose.

Bonds Not to Become Arbitrage Bonds

The City covenants for the benefit of the Bondholders that, notwithstanding any other provision of the General Ordinance or any other instrument, it will neither make nor instruct the Fiscal Agent to make any investment or other use of amounts on deposit in the funds and accounts established under the General Ordinance or other proceeds of the Bonds which would cause any Series of Bonds issued under the General Ordinance as tax-exempt to be arbitrage bonds under Section 148 of the Code and the regulations thereunder to the extent that the same are applicable at the time of such investment; it will file any reports required to be filed pursuant to the Code; and it will not take or fail to take any action so as to render any Series of Bonds issued under the General Ordinance as tax-exempt to be arbitrage bonds under Section 148 of the Code.

Prohibition Against Certain Uses of Funds; Enforcement

The City covenants that while any Bonds are Outstanding under the General Ordinance, it will not direct the Fiscal Agent to transfer, loan or advance proceeds of the Bonds or Amounts Available for Debt Service from the Aviation Funds to any City account for application other than for Airport System purposes.

If, on any date when a deposit is required to be made of the Project Revenues, the City fails to comply with any provision of the General Ordinance, the Fiscal Agent is authorized to and shall seek, by mandamus or other suit, action or proceeding at law or in equity, the specific enforcement or performance of the obligation of the City to cause the Project Revenues to be transferred to the Aviation Operating Fund, and still have any and all other rights and remedies of a fiscal agent under the General Ordinance, any Supplemental Ordinance, the Act or otherwise at law or in equity.

Credit Facilities, Standby Agreements and Qualified Swaps

All or any of the foregoing covenants of the City for the benefit of the Bondholders may also be for the benefit of the providers of any Credit Facility, Standby Agreement and any Qualified Swap to the extent provided in a Supplemental Ordinance or Determination.

Fiscal Agent

Fiscal Agent. The Fiscal Agent under the General Airport Revenue Bond Ordinance of 1978 or its successor, shall be Fiscal Agent as of the Effective Date for the General Ordinance. The City may appoint a successor Fiscal Agent by Supplemental Ordinance to act as Fiscal Agent under the General Ordinance, and in connection with the Bonds issued thereunder. The Fiscal Agent shall also act as depository of the Sinking Fund and the Subordinate Obligation Fund, and may act as paying agent and Bonds Registrar.

Nothing in the General Ordinance shall be construed to prevent the City, in accordance with law, from engaging other Fiscal Agents from time to time or to engage other paying agents of the Bonds or any Series thereof in addition to, or as a successor to the Fiscal Agent. Any entity appointed by the City as Fiscal Agent under the General Ordinance shall be a trust company or national or state bank having trust powers and combined capital and surplus of at least fifty million ($50,000,000) dollars and be qualified to serve pursuant to the Act. Any entity appointed by the City as Fiscal Agent under the General Ordinance as a successor to the Fiscal Agent shall assume all rights and obligations of the Fiscal Agent thereunder.

Subject to the foregoing, the proper officers of the City are authorized to enter into contracts or to confirm existing agreements governing the maintenance of funds and accounts and records, the disposal of canceled Bonds, the rights, duties, privileges and immunities of the Fiscal Agent, and such other matters as are authorized by the Act and as are customary and appropriate and to confirm the agreement of the Fiscal Agent, in its several capacities, to comply with the provisions of the Act and of the General Ordinance.

The Fiscal Agent shall keep on file a copy of each report and its accompanying certificates delivered to it pursuant to the General Ordinance for a period of ten (10) years and shall exhibit the same to, and permit the copying thereof by, any Bondholder, or his authorized representative at all reasonable times.

Resignation of Fiscal Agent. The Fiscal Agent may resign and be discharged of the duties created by the General Ordinance by written resignation filed with the Director of Finance not less than sixty (60) days before the date when such resignation is to take effect. Such resignation shall take effect on the day specified in such notice provided that a successor Fiscal Agent has been appointed and has accepted its role as Fiscal Agent. If a successor Fiscal Agent is appointed prior to the date specified in the notice, the resignation shall take effect immediately on the appointment and acceptance of such successor, and the City shall give the notices required in the following section.

Appointment of Successor Fiscal Agent. If the Fiscal Agent or any successor Fiscal Agent resigns, is replaced, or is dissolved or if its property or business is taken under the control of any state or Federal court or administrative body, a vacancy shall exist in the office of the Fiscal Agent, and the City shall appoint a successor within thirty (30) days of such vacancy and shall mail notice of such appointment to the Bondholders and to the registered depositories at their registered addresses by first class mail, postage prepaid, within thirty (30) days of such appointment. If no successor is appointed within such thirty (30) day period, the Fiscal Agent and any Bondholder may petition any court of competent jurisdiction to appoint a successor.

Defaults and Remedies

Defaults and Statutory Remedies: Notice to Bondholders. If the City shall fail or neglect to pay or to cause to be paid the principal of, redemption premium, if any, or interest on any Bond or any Series of Bonds issued under the General Ordinance, whether at stated maturity or upon call for prior redemption or if the City, after written notice to it, shall fail or neglect to make any payment owed by it as a result of a Credit Facility or Standby Agreement and secured by a parity pledge of Project Revenues entered into with respect to Bonds and the provider of the Credit Facility or Standby Agreement provides written notification to the Fiscal Agent of such failure or neglect, or if the City shall fail to comply with any provision of any Bonds or with any covenant of the City contained in the General Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies, including the appointment of a trustee, provided in the Act; provided, however, that the remedy provided in Section 20(b)(4) of the Act may be exercised only upon the failure of the City to pay, when due, principal and redemption price (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of Bonds.

Upon the occurrence of an event of default specified in this section, or if an event occurs which could lead to a default with the passage of time and of which the Fiscal Agent has actual notice, the Fiscal Agent shall, within thirty (30) days, given written notice thereof by first-class mail to all Bondholders.

Remedies Not Exclusive; Effect of Delay in Exercise of Remedies. No remedy in the General Ordinance or in the Act conferred upon or reserved to the trustee, if any, or to the Holder of any Bond is intended to be exclusive (except as specifically provided in the Act) of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given under the General Ordinance or now or hereafter existing at law or in equity or by statute.

No delay or omission of a trustee, if one be appointed pursuant to Section 20 of the Act, or of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy given by Article VIII of the General Ordinance, by the Act or otherwise may be exercised from time to time, and as often as may be deemed expedient.

Remedies to be Enforced Only Against Pledged Amounts. Any decree or judgment for the payment of money against the City by reason of default under the General Ordinance shall be enforceable only against the Pledged Amounts, and no decree or judgment against the City upon an action brought under the General Ordinance shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

Conveyance of System and Assignment, Assumption and Release of Obligations

Conveyance and Assignment, Assumption and Release. Nothing in the General Ordinance shall prevent the City from conveying and assigning to a municipal authority created pursuant to the Municipality Authorities Act, 53 Pa. C. S. ch. 56, or an authority created pursuant to any other applicable statute or to another entity (the "Authority") all or substantially all (or less than substantially all, as provided below) of its right, title and interest in the Airport System and thereupon becoming released from all of its obligations under the General Ordinance, under any Supplemental Ordinance and under the Bonds and related obligations, including, but not limited to Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements, (i) if the Authority assumes in writing the City's obligations (1) to operate or cause the Airport System to be operated and to maintain or cause the Airport System to be maintained in good condition; and (2) to pay the principal, redemption premium, if any, and interest on all Outstanding Bonds and Subordinate Obligations, and all payments due under Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements entered into pursuant to the General Ordinance and then outstanding according to the terms thereof; and (ii) if the instrument of assumption provides the Bondholders or the trustee or entity serving in a similar capacity and acting on behalf of the Bondholders with the substantial equivalent of all of the rights and remedies provided in the General Ordinance and the Act; provided, however, that before the City may consummate such a conveyance and assignment and obtain a release of its obligations under the General Ordinance, under any Supplemental Ordinance and under the Bonds and related obligations, including but not limited to Credit Facilities, Standby Agreements, Qualified Swaps, and Exchange Agreements, the following conditions shall have been satisfied:

the City and the Fiscal Agent shall have received an opinion of the City Solicitor substantially to the effect that the conveyance to the Authority of all or substantially all of the City's right, title and interest in the Airport System, the assignment to the Authority of the obligations of the City under the General Ordinance, any Supplemental Ordinance, the Bonds and any Subordinate Obligations to make payments of principal, redemption premium, if any, and interest on the Bonds, and the release of the City from all of its obligations under the General Ordinance, under any Supplemental Ordinance, under the Bonds or any Subordinate Obligations, and under related obligations, including, but not limited to, Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements, have been duly authorized by the City and do not violate any applicable law, ordinance, resolution or regulation of the City or any applicable court decision;

the City and the Fiscal Agent shall have received an opinion of the solicitor of the Authority substantially to the effect that (i) the acquisition by the Authority of all or substantially all of the City's right, title and interest in the Airport System and the assumption by the Authority of the City's obligations under the General Ordinance, under any Supplemental Ordinance, under the Bonds, and any Subordinate Obligations to make payments of principal, redemption premium, if any, and interest on the Bonds and any Subordinate Obligations and related obligations, including, but not limited to, Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements, have been duly authorized by the Authority and do not violate any law, ordinance, resolution or regulation applicable to the Authority or any applicable court decision; (ii) the instrument under which the Authority assumes the obligations of the City under the General Ordinance, under any Supplemental Ordinance and under the Bonds, and any Subordinate Obligations to make payments of principal, redemption premium, if any, and interest on the Bonds and any Subordinate Obligations constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms except as enforcement may be limited by bankruptcy, insolvency or other similar laws or equitable principles affecting the enforcement of creditors' rights; (iii) the security interest granted by the Authority pursuant to subparagraph (d) creates a valid and effective lien in favor of Holders of Bonds and security interest in the Pledged Amounts to be generated by the Airport System; and (iv) the rates and charges established by the Authority and referred to below in subparagraph (e) have been duly authorized and enacted in accordance with applicable law;

the City and the Fiscal Agent shall have received an opinion of Bond Counsel substantially to the effect that (i) the conveyance of all or substantially all of the City's right, title and interest in the Airport System to the Authority; the release of the City from its obligations under the General Ordinance, under any Supplemental Ordinance and under the Bonds and any Subordinate Obligations; and the assumption by the Authority of the City's obligations under the General Ordinance, under any Supplemental Ordinance, under the Bonds and Subordinate Obligations to make payments of principal, redemption premium, if any, and interest on the Bonds and Subordinate Obligations, and under related obligations, including, but not limited to, Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements, will not have an adverse effect on the exemption of interest on any series of Bonds issued as tax-exempt Bonds; (ii) the instrument under which the Authority assumes the obligations of the City under the General Ordinance, under any Supplemental Ordinance and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms except as enforcement may be limited by bankruptcy, insolvency or other similar laws or equitable principles affecting the enforcement of creditors' rights, and (iii) the security interest granted by the Authority pursuant to subparagraph (d) creates a valid and effective lien in favor of the Holders of Bonds and security interest in the Pledged Amounts;

the Authority shall, concurrently with the conveyance, assignment, assumption and release described above, grant to the trustee or entity serving in a similar capacity and acting on behalf of Bondholders a security interest in Pledged Amounts following the conveyance, assignment, assumption and release;

the City and the Fiscal Agent shall have received a report of a Consultant, concluding that for each of the three (3) twelve (12) month periods following the conveyance, assignment, assumption and release described above, or for each of the three (3) fiscal years of the Authority commencing with the first full fiscal year of the Authority following the conveyance, assignment, assumption and release described above, the Airport System is projected to generate Amounts Available for Debt Service in an amount which is sufficient to enable the Authority to comply with the Rate Covenant determined in accordance with consistently applied accounting principles for each of the three twelve (12) month periods or three (3) fiscal years, as the case may be;

the Authority shall have the authority, so long as Bonds remain Outstanding, to establish, and shall have established and shall have agreed to maintain rates and charges in connection with the operation of the Airport System at a level sufficient, in the opinion of a Consultant, as contained in a report filed with the Fiscal Agent, to generate Amounts Available for Debt Service in an amount which is sufficient to enable the Authority to comply with the Rate Covenant determined in accordance with consistently applied accounting principles;

the Authority shall have agreed, so long as Bonds remain Outstanding, to incur or assume no parity debt payable from Amounts Available for Debt Service following the conveyance, assignment, assumption and release unless (1) in the case of debt incurred or assumed for the purpose of financing capital improvements, extensions, or expansions to the Airport System, or acquisition or assumption of such other assets for use in the operation, maintenance, and administration of the Airport System, or (2) in the case of debt incurred or assumed for the purpose of refinancing existing debt, the Authority first shall have obtained a report of a Consultant, concluding that on the basis of historical and estimated future annual financial operations of the Airport System from which Amounts Available for Debt Service are to be derived, (A) for either the immediately preceding Fiscal Year of the City, or any period of 12 full consecutive months during the 18-month period preceding the delivery of the Consultant's report, the Airport System yielded Amounts Available for Debt Service sufficient to satisfy the Rate Covenant, (B) no deficiency exists in the Sinking Fund Reserve Account and (C) the Airport System will, in the opinion of the Consultants, yield Amounts Available for Debt Service for each of the five Fiscal Years (or, if interest on all or a portion of the proposed debt is to be capitalized, following the Fiscal Year up to which interest has been capitalized on the debt or a portion thereof; provided that in the event that the Consultant is professionally unable to provide an opinion for a period in excess of three Fiscal Years, then such opinion may be for such three year period) ended immediately following the issuance or assumption of the Bonds, sufficient to comply with the Rate Covenant; provided, however, no Consultant's report is required to be delivered in the case of debt incurred or assumed for the purpose of refinancing existing debt, so long as the Authority certifies in writing that the Debt Service Requirements in any year on the proposed refinancing obligations do not exceed the Debt Service Requirements in any such year on the obligations to be refinanced. For purposes of the foregoing sentence and subparagraphs (e) and (f), the phrases "Amounts Available for Debt Service" and "Debt Service Requirements" shall have the meaning assigned in Section 2.01 of the General Ordinance with the exception that references therein to Bonds shall be deemed to include reference to Subordinate Obligations, General Obligation Bonds or NSS General Obligation Bonds which continue to be Outstanding after such transfer, additional debt of the Authority payable from revenues of the Airport System and the debt, if any, which the Authority proposes to incur or assume; and

the Authority shall have agreed to incur or assume no obligation secured, or to be secured, by a pledge of Pledged Amounts senior to the pledge securing the Bonds.

In consideration of such conveyance and transfer, the Authority may finance and pay to the City compensation in an amount agreed upon between the City and Authority. Any such financing and payment of compensation to the City shall be disregarded in determining whether the Authority's instrument of assumption provides the Bondholders or the trustee or entity serving in a similar capacity on behalf of the Bondholders with the substantial equivalent of all of the rights and remedies provided in the General Ordinance and the Act.

Notwithstanding the foregoing, the City may convey to the Authority less than substantially all of its right, title and interest in the Airport System if a Consultant shall first have certified that the assets of and/or rights and interest in the Airport System which the City proposes to exclude from the conveyance to the Authority are not material to the ability of the Airport System to generate revenues following the conveyance. If less than substantially all of the assets of and/or rights and interest in the Airport System are conveyed to the Authority pursuant to this paragraph, references in the preceding paragraphs of this section to "all or substantially all of the City's right, title and interest in the Airport System" shall be deemed modified to reflect a conveyance of less than substantially all of the City's right, title and interest in the Airport System.

In connection with the conveyance to the Authority of all or substantially all of the City's right, title and interest in the Airport System, the City shall convey and assign to the Authority all amounts on deposit in the funds and accounts established under the General Ordinance, provided that any reserve funds shall be transferred as trust funds established for the benefit of the Series of Bonds for which such reserve funds were initially established. The Fiscal Agent shall take such actions as are necessary to terminate its security interest in the Project Revenues and funds and accounts established under the General Ordinance. If the City transfers less than substantially all of its right, title and interest in the Airport System then the City shall convey and assign to the Authority an amount of the balances on deposit in funds and accounts established under the General Ordinance proportionate to the amount of Bonds assumed or defeased. The City Controller shall certify the balances on deposit in the funds and accounts established under the General Ordinance as of the date of the conveyance. To the extent permitted by law, the City Controller will have the right to audit the books of any public Authority created by the City of Philadelphia pursuant to the laws of the Commonwealth of Pennsylvania, and the City Controller will be compensated by such public Authority for reasonable costs incurred in connection with the audit of such books.

Anything in the General Ordinance to the contrary notwithstanding, upon conveyance of all or substantially all of the assets of the Airport System to the Authority pursuant to Article IX of the General Ordinance, the provisions of the General Ordinance shall no longer be enforceable against the City.

Nothing contained in Article IX of the General Ordinance shall be construed to prohibit the City from conveying and assigning all or substantially all (or less than substantially all, as provided in Article IX) of its right, title and interest in the Airport System to an entity owned by private persons provided that the requirements of Article IX of the General Ordinance are otherwise satisfied.

Alternative Rate Covenant.

(b) The Authority may elect, upon conveyance of all or substantially all of the City's right, title and interest in the Airport System, to include in the resolution of the Authority the following rate covenant in lieu of the Rate Covenant contained in Article V of the General Ordinance, and such election shall state whether such election shall become effective as of the date of conveyance, or as of the first day of the immediately succeeding Fiscal Year. If such election states that it shall become effective beginning on the first day of the immediately succeeding Fiscal Year, then the Rate Covenant in Section 5.01 of the General Ordinance shall remain in effect from the date of conveyance until the last day of the Fiscal Year in which the conveyance took place.

The Authority covenants with the Bondholders that it will, at a minimum, impose, charge and collect in each Fiscal Year such rents, rates, fees and charges, together with any Amounts Available for Debt Service carried forward at the beginning of such Fiscal Year, as shall yield Amounts Available for Debt Service which shall be equal to the greater of the following amounts:

(A) the lesser of (1) The sum of: (i) all Net Operating Expenses incurred during such Fiscal Year; (ii) 150% of Debt Service Requirements payable during the Fiscal Year; (iii) the amount, if any, required to be paid into the Sinking Fund Reserve Account during such Fiscal Year; and (iv) the amount, if any, required to be paid into the Renewal Fund during the Fiscal Year, or (2) The sum of: (i) all Operating Expenses incurred during such Fiscal Year; (ii) 125% of Debt Service Requirements payable during the Fiscal Year; (iii) the amount, if any, required to be paid into the Sinking Fund Reserve Account during such Fiscal Year; and (iv) the amount, if any, required to be paid into the Renewal Fund during the Fiscal Year; or

(B) (1) The sum of: (i) all Operating Expenses incurred during such Fiscal Year, (ii) all Debt Service Requirements during such Fiscal Year, (iii) all debt service requirements during such Fiscal Year in respect of all outstanding General Obligation Bonds or NSS General Obligation Bonds issued for improvements to the Airport System; (iv) all debt service requirements during such Fiscal Year on Subordinate Obligations and any other subordinate indebtedness secured by any Amounts Available for Debt Service, (v) all amounts required to repay loans among funds made pursuant to Section 4.05(c) of the General Ordinance, (vi) the amount, if any, required to be paid into the Sinking Fund Reserve Account or Renewal Fund during such Fiscal Year and (vii) all amounts required to be paid under Exchange Agreements.

Promptly upon any material change in the circumstances which were contemplated at the time such rents, rates, fees and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, the Authority shall review the rents, rates, fees and charges as necessary to enable the Authority to comply with the foregoing requirements; provided that such rents, rates, fees and charges shall in any event produce moneys sufficient to enable the Authority to comply with its covenants in the resolution.

Amendments and Modifications

Amendments and Modifications. In addition to the enactment of Supplemental Ordinances supplementing or amending the General Ordinance in connection with the issuance of successive Series of Bonds, the General Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission therein or to make such provisions in regard to matters or questions arising thereunder which shall not be inconsistent with the provisions thereof and which shall not adversely affect the interests of Bondholders; (b) to grant to or confer upon Bondholders, or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority, or security that may be lawfully granted or conferred; (c) to incorporate modifications requested by any Rating Agency or Credit Facility provider to obtain or maintain a credit rating on any Series of Bonds; (d) to comply with any mandatory provision of state or Federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds but no amendment or modification shall be made with respect to any Outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding Bonds; and (e) except as aforesaid, in such other respect as may be authorized in writing by the Holders of sixty-seven percent (67%) in principal amount or Original Value in the case of Capital Appreciation Bonds of the Bonds Outstanding and affected. In the case of a Credit Facility, Standby Agreement or Qualified Swap, if and to the extent provided in the Supplemental Ordinance and Determination of Bonds related thereto, the provider thereof may be the representative of the Bondholders of such Series or portion of such Series for purposes of Bondholder consent, approval or authorization. The written authorization of Bondholders of any supplement to or modification or amendment of the General Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof. Bonds, the payment for which has been provided for in accordance with Section 6.04 of the General Ordinance, shall be deemed to be not Outstanding.

Miscellaneous

Deposit of Funds for Payment of Bonds. When interest on, and principal or redemption price (as the case may be) of, all Bonds issued under the General Ordinance, and all amounts owed under any Credit Facility and Standby Agreement entered into under the General Ordinance, have been paid, or there shall have been deposited with the Fiscal Agent or an entity which would qualify as a Fiscal Agent under Section 7.01 thereof an amount, evidenced by moneys or Qualified Escrow Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds at the maturity date or date fixed for redemption thereof, and all amounts owed under any Credit Facility and Standby Agreement entered into under the General Ordinance, the pledge and grant of a security interest in the Pledged Amounts under the General Ordinance shall cease and terminate, and the Fiscal Agent and any other depository of funds and accounts established thereunder shall turn over to the City or to such person, body or authority as may be entitled to receive the same all balances remaining in any funds and accounts established under the General Ordinance.

If the City deposits with the Fiscal Agent or such other qualified entity moneys or Qualified Escrow Securities sufficient to pay, together with interest thereon, the principal or redemption price of any particular Bond or Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on the Bond or Bonds shall cease to accrue on the due date and all liability of the City with respect to such Bond or Bonds shall likewise cease, except as provided in the following paragraph. Thereafter such Bond or Bonds shall be deemed not to be outstanding under the General Ordinance and shall have recourse solely and exclusively to the funds so deposited for any claims of whatsoever nature with respect to such Bond or Bonds, and the Fiscal Agent or such other qualified entity shall hold such funds in trust for such Holder or Holders.

Moneys deposited with the Fiscal Agent or such other qualified entity pursuant to the preceding paragraphs which remain unclaimed two (2) years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent or such other qualified entity (the Fiscal Agent having no responsibility to independently investigate), in default with respect to any covenant in the General Ordinance or the Bonds contained, be paid to the City; and the Holders of the Bond for which the deposit was made shall thereafter be limited to a claim against the City; provided, however, that before making any such payment to the City, the Fiscal Agent or such other qualified entity shall, at the expense of the City, publish in a newspaper of general circulation published in Philadelphia, Pennsylvania, a notice of said 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 publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

This section shall not be construed to limit the procedure set forth in Section 10 of the Act for calculating the principal or redemption price of and interest on any Bonds for the purpose of ascertaining the sufficiency of revenues for the purpose of Sections 7(a)(5) and 8(a)(iii) of the Act for the purpose of determining the outstanding net debt of the City if General Obligation Bonds of the City are refunded pursuant to the Act.

No deposit of funds shall be made pursuant to Section 11.01 of the General Ordinance if, in the opinion of Bond Counsel, such action shall cause the interest on any Series of Bonds initially issued as tax exempt Bonds, to become subject to Federal income tax.

Ordinances are Contracts With Bondholders. The General Ordinance and Supplemental Ordinances adopted pursuant thereto are contracts with the Holders of all Bonds from time to time Outstanding under the General Ordinance and thereunder and shall be enforceable in accordance with the provisions thereof and the laws of Pennsylvania.

THE FOURTEENTH SUPPLEMENTAL ORDINANCE

The 2015 Bonds will be issued under and are subject to the Fourteenth Supplemental Ordinance which supplements the provisions of the General Ordinance. Reference is made to the Fourteenth Supplemental Ordinance and the General Ordinance for complete details of the terms of the 2015 Bonds. All capitalized and defined terms used in the following summary of the Fourteenth Supplemental Ordinance which are not otherwise defined in this Official Statement are defined as in the General Ordinance.

The Fourteenth Supplemental Ordinance authorizes the Mayor, the City Controller and the City Solicitor, or a majority of them (the "Bond Committee"), on behalf of the City of Philadelphia (the "City"), to borrow, by the issuance and sale of one or more series of Airport Revenue Bonds of the City (the "Bonds"). The Bonds are to be issued under and pursuant to The First Class City Revenue Bond Act of October 18, 1972, Act No. 234 (the "Act"), and are to be secured by the General Ordinance. The aggregate principal amount of the Bonds shall not exceed one hundred twenty-five million dollars ($125,000,000) exclusive of costs of issuance (including underwriters' discount), original issue discount, capitalized interest, funding of deposits to the Sinking Fund Reserve Account and similar items, and in the event the Bonds are issued with such items, the Bond Committee is authorized to increase the aggregate principal amount of the Bonds so issued, by the amount of such items (the "Additions").

As indicated in the Fourteenth Supplemental Ordinance, the Bonds shall bear interest from the dated date thereof to maturity or prior redemption, if any, at prescribed fixed or variable rates (not exceeding any limitation prescribed by law) as specified or provided in the Determination. The Bonds shall contain series or subseries designations, terms and provisions (including without limitation, interest payment dates, record dates, redemption provisions, denominations, provisions for payments by wire transfer and provision for issuance of the Bonds in book entry form) as the Bond Committee shall determine to be in the best interest of the City and which are not inconsistent with the provisions of the Fourteenth Supplemental Ordinance, of the Act or of the General Ordinance. In connection with the issuance of the Bonds, the Bond Committee is authorized by the Fourteenth Supplemental Ordinance to enter into such Qualified Swaps, Exchange Agreements or similar instruments as it may determine and as are permitted by the General Ordinance.

The Fourteenth Supplemental Ordinance provides that the Bonds shall not pledge the credit or taxing power of the City, or create any debt, charge or lien against the tax, general revenues or property of the City other than the revenues pledged by the General Ordinance. The Bond Committee is authorized on behalf of the City to enter into agreements (the "Enhancement Agreements") with any bank, insurance company or other appropriate entity providing credit enhancement or payment or liquidity sources for the account of the City for the Bonds, including, without limitation, letters of credit, lines of credit and insurance. Such Enhancement Agreements may provide for payment or acquisition of the Bonds if the City does not pay the Bonds when due and may provide for repayment with interest to the bank or other institution from the date of such payment or acquisition. The Bond Committee is authorized to make all such covenants and to take any and all necessary or appropriate or other actions in connection with the consummation of the transactions contemplated by the Fourteenth Supplemental Ordinance.

The Fourteenth Supplemental Ordinance provides that the Bonds shall be issued to refund and redeem all or any portion of the outstanding City of Philadelphia, Pennsylvania, Airport Revenue Bonds, Series 2005A, (the "Refunding Project") upon such terms and in such amounts as shall be determined by the Director of Finance (the "Refunded Bonds").

The City authorizes the redemption of the Refunded Bonds in accordance with the General Ordinance. The Bond Committee or the Director of Finance and the Fiscal Agent are authorized to take all actions necessary and appropriate to effect the redemption of the Refunded Bonds, including the issuance of required notices. Furthermore, the Bond Committee or the Director of Finance is authorized to enter into an Escrow Agreement (the "Escrow Agreement") providing for the deposit and investment of all or a portion of the Bond proceeds and other available funds of the City in amounts sufficient, together with interest thereon, if any, to defease the lien of such Refunded Bonds and providing for payment of the Refunded Bonds at maturity or redemption, as applicable, including all interest payable on such Refunded Bonds to such maturity or redemption dates, as applicable.

The Bonds may have a delivery date which occurs in a fiscal year which succeeds the fiscal year in which the sale date of such Bonds occurred.

The proceeds of the Bonds required for the defeasance of obligations to be refunded or otherwise defeased, as specified in the Fourteenth Supplemental Ordinance, may be deposited in an escrow fund or account to be established pursuant to the Escrow Agreement.

The proceeds of the sale of the Bonds shall be used to pay all "Project Costs" as such term is defined in the Act, including, but without limitation, the establishment of the sinking fund reserve required by, and other funds permitted by, the General Ordinance, and the payment of the costs of the issuance of the Bonds.

Pursuant to the Act, it is determined in the Fourteenth Supplemental Ordinance, based on the report of the Director of Finance filed pursuant to the Act, that the pledged Amounts Available for Debt Service will be sufficient to comply with the rate covenant contained in the General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom, in the order and priority stated in the General Ordinance.

The City covenants in the Fourteenth Supplemental Ordinance that, so long as any Bond shall remain unpaid, it will make payments or cause payments to be made out of the Sinking Fund established pursuant to the General Ordinance or any of the other Aviation Funds available therefor, at such times and in such amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due. Prior to approval of the Fourteenth Supplemental Ordinance by City Council, the City delivered to the Chief Clerk of City Council an opinion of the City Solicitor to the effect, *inter alia,* that the holders of the Bonds have no claim upon the taxing power or general revenues of the City nor any lien upon any of the property of the City other than the Pledged Amounts pledged for the Bonds.

The City covenants in the Fourteenth Supplemental Ordinance that it will make no investment or other use of the proceeds of the Bonds which would cause the Bonds to be "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended, and Treasury Regulations promulgated thereunder (the "Code"), and that the City will comply with the requirements of Section 148 of the Code throughout the term of the Bonds as more fully described in the determination of the Bond Committee. The Director of Finance is authorized to execute on behalf of the City a report of the issuance of the Bonds as required by Section 149(e) of the Code.

The Fourteenth Supplemental Ordinance provides, in the text of the Form of Bond included therein, that the Bonds shall be special obligations of the City payable solely from the pledged rentals, revenues and moneys and neither the credit nor the taxing power of the City is pledged for the payment of the principal of or interest on the Bonds, nor shall the Bonds be or be deemed to be a general obligation of the City. The Bonds together with all parity bonds of the City issued under the General Ordinance and all subsequent supplemental ordinances, shall be equally and ratably secured under the General Ordinance, to the extent set forth in the General Ordinance, by a pledge of Pledged Amounts which shall include Project Revenues defined to include revenues, rents, rates, tolls or other charges imposed and moneys received by or on behalf of the City from or in connection with the ownership and operation of the Airport System (exclusive of certain revenues as described in the General Ordinance), as more fully defined in the General Ordinance, provided however, that certain passenger facility charges described in the Fourteenth

Supplemental Ordinance which comprise a portion of Pledged Amounts are pledged to the Refunding 2005A Bonds are to be deposited directly into the Sinking Fund to pay debt service on the Refunding 2005A Bonds. The City covenants, so long as the Bonds shall remain outstanding, it will pay or cause to be paid from the pledged Amounts Available for Debt Service deposited in the Sinking Fund, and other amounts available therefor, the principal of, redemption premium, if any, and interest on the Bonds as the same shall become due and payable.

The Fourteenth Supplemental Ordinance authorizes the Director of Finance to execute and deliver a continuing disclosure agreement relating to the Bonds, meeting the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5). The City covenants and agrees that it will comply with and carry out all of the provisions of such continuing disclosure agreement.

APPENDIX V

SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS
OF THE AIRLINE AGREEMENT

In June 2015, the City approved an Airport-Airline Use and Lease Airline Agreement (the "Airline Agreement") which went into effect as of July 1, 2015, and is in effect until June 30, 2020, and thereafter subject to two one-year extensions (the "Term"). The Airline Agreement sets forth the operational and financial relationship between the City and the Airlines executing the Airline Agreement (the "Signatory Airlines"). Set forth below are summaries of certain provisions of the Airline Agreement. Such summaries do not purport to be complete and are qualified in their entirety by reference to the Airline Agreement, copies of which are available from the City.

DEFINITIONS

Any terms not specifically set forth in this Appendix shall have the meanings ascribed to them in the body of this Official Statement, in the Airline Agreement and in the Ordinances, if related thereto.

"Airline Equipment" shall mean those moveable trade fixtures, furniture and equipment located on or affixed to Airline's Leased Premises, or elsewhere at the Airport, purchased and/or constructed at the sole cost and expense of Airline which are considered the personal property of Airline.

"Airline Improvements" shall mean those fixtures and construction related additions, modifications and improvements located on or affixed to Airline's Leased Premises, or elsewhere at the Airport, which have been purchased and/or constructed at the sole cost and expense of Airline.

"Airline's Leased Premises" shall mean the areas of Airline Space that are directly leased to Airline under the Airline Agreement, together with Airline's Ramp Premises.

"Airline Revenues" shall mean all Rents, Additional Rents, fees and other operating revenues paid by Signatory Airlines and their Affiliates in the Airline Cost Centers under the Airline Agreement.

"Airline's Terminal Area Leased Premises" shall mean the total square footage in the Terminal Area attributable to an individual Signatory Airline in any given Fiscal Year during the term of the Airline Agreement, which is the sum of the Airline's Exclusive Use, Preferential Use, and Joint Use Space.

"Airline Space" shall mean Exclusive Use Space, Preferential Use Space, Joint Use Space, and International Common Use Areas in the Terminal Area leased to any Airline, as same may be modified from time to time by the parties without formal amendment hereto.

"Airport Cost Centers" or "Cost Centers" shall mean collectively the following cost centers:

(a) "Airfield Area" or "Airfield Area Cost Center" shall include all existing and future City owned and operated airfield areas at the Airport;

(b) "Terminal Area" or "Terminal Area Cost Center" shall include the Airport passenger terminal buildings, including the areas available for use as baggage make-up, the sidewalk and curb adjacent to the landside of the terminal buildings, the boarding bridges and all pedestrian bridges connecting the terminal buildings with the landside vehicular parking garages, as such areas now exist or may be developed, extended or improved from time to time;

(c) "Ramp Area" or "Ramp Area Cost Center" shall mean those outside airport operations areas of the Airport designated for the Terminal Area consisting of the aircraft parking positions, ramp space and canopy space (and including any other equipment located on the Ramp Area that are owned by City and provided for the use by Air Transportation Companies);

(d) "Other Buildings and Areas" or "Other Buildings and Areas Cost Center" shall include those Airport facilities including but not limited to: airline, general aviation and corporate hangars;

commissary; fueling facilities; industrial facilities, airline freight, express and mail handling facilities; the former hangars, renovated and improved by City in 1972 and the north and south international terminal aprons associated with the area formerly known as the Overseas Terminal; and certain non-airline facilities (including office, retail, warehouses, etc.) including any property purchased for indirect aviation purposes, such as concurrent commercial development as they now exist or may be developed, demolished, extended, expanded or improved from time to time;

(e) Northeast Airport; and

(f) "Outside Terminal Area" or "Outside Terminal Area Cost Center" shall include the roadway, hotel, service station, vehicular parking and car rental facilities appurtenant, adjacent to or used in connection with the Airport as they now exist or may be developed, extended, or improved from time to time.

Such Airport Cost Centers shall be used for purposes of accounting for Project Revenues and Airport Expenses and for calculating and adjusting certain rentals, fees and charges as specified in the Airline Agreement:

"Airport Expenses" shall mean the Operating Expenses, Debt Service, and Fund Requirements associated with the operation of the Airport System or any part thereof for any Fiscal Year.

"Annual Budget" shall mean the capital and operating budget and annual rates and charges report of the Airport System, prepared and adopted by City for each Fiscal Year during the term of the Airline Agreement.

"Bond Documents" shall mean those contracts, Airline Agreements, certificates, resolutions or other materials, ancillary to and including the Ordinances, evidencing the issuance of Airport Revenue Bonds.

"Capital Expenditure" shall mean: (i) a single item of equipment, vehicles, nonrecurring capital outlays, and other items of personal property purchased, leased or constructed at a cost to City, net of PFC, AIP, Federal, State, or City's Discretionary Account funds, in excess of five hundred thousand dollars ($500,000), which City determines to have a useful life in excess of five (5) years, which, along with all other equipment, vehicles, non-recurring capital outlays, and other items of personal property exceed an aggregate net cost of five million dollars ($5,000,000) in any Fiscal Year or (ii) any other Capital Improvement Project(s) purchased, leased, or constructed at an aggregate cost to City, net of PFC, AIP, Federal, State, or City's Discretionary Account funds, in excess of one million two hundred fifty thousand dollars ($1,250,000) in any Fiscal Year, which City determines to have a useful life of more than five (5) years.

"Capital Improvement Project" shall mean a project under which an asset is purchased, leased or constructed by City for the Airport System which City determines to have a useful life of more than five (5) years and a capital cost of more than $10,000.

"Code" shall mean the Internal Revenue Code of 1986, as amended, supplemented, or replaced, and the regulations and rulings issued thereunder.

"Default Rate" shall mean five percent (5%) plus the Prime Rate.

"Fiscal Year" shall mean the twelve-month period commencing on July 1st of each year, or such other twelve-month period as may be established by City from time to time.

"Majority in Interest" or "MII" shall mean the mechanism by which the Signatory Airlines may disapprove a Capital Expenditure, as set forth in the Airline Agreement.

"Majority in Interest Formula" or "MII Formula" shall mean the formulas as set forth in the Airline Agreement.

"Non-Airline Revenues" shall mean all rentals, charges, fees, ground handling fees, user charges, concession and other operating revenues received by or on behalf of City from the operation of the Airline Cost Centers or any part thereof; but excluding however, all Airline Revenues, and also excluding all gifts, grants, reimbursements, restricted funds or payments received from governmental units or public agencies or any other source, passenger facility charges, customer facility charges, and federal, state or City subsidies or incentives deposited in the Aviation Capital Fund.

"Ordinances" shall mean the Amended and Restated General Airport Revenue Ordinance, approved June 16, 1995, as amended and supplemented.

"Rents" shall mean all Terminal Rentals, Ramp Area Rentals, Other Fees, other rents, charges, fines, costs, reimbursements, penalties, taxes, late charges, liquidated damages, and interest of all types and of all nature that Signatory Airline is required to pay pursuant to this Airline Agreement.

BOND DOCUMENTS AND FLOW OF FUNDS

Subordination to Ordinances

The Airline Agreement and all rights granted to the Signatory Airlines thereunder are expressly subordinated and subject to the lien and provisions of the pledges, transfer, hypothecation or assignment made by the City in the Ordinances. The City expressly reserves the right to make such pledges and grant such liens and enter into covenants as it may deem necessary or desirable to secure and provide for the payment of Airport Revenue Bonds, including the creation of reserves therefore, provided that the City shall not take any actions that would be inconsistent with the terms and conditions of the Airline Agreement. Notwithstanding the foregoing, nothing contained in the Airline Agreement shall be deemed a pre-approval by an Airline of a future Ordinance that changes the terms and conditions of the Airline Agreement.

Internal Revenue Code of 1986

With respect to Airport Revenue Bonds that may be issued, the interest on which is intended to be excludable from gross income of the holders for Federal income tax purposes under the Code, the Signatory Airlines agree to not act, or fail to act (and will immediately cease and desist from any action, or failure to act) with respect to the use of the Airline Leased Premises, if the act or failure to act may cause the City to be in noncompliance with the provisions of the Code, and the Signatory Airlines will not take or persist in any action or omission which may cause the interest on such Airport Revenue Bonds to be includable in the gross income of the holders thereof for Federal income tax purposes.

SEC Rule 15c2-12

Upon request of the City, the Signatory Airlines shall provide the City with such information with respect to the Signatory Airlines as the City may request in writing in order for the City to comply with its continuing disclosure obligations under Securities and Exchange Commission ("SEC") Rule 15c2-12 (the "Rule"), as it may be amended from time to time. To the extent that an Airline is an "Obligated Party" with respect to the Airport Revenue Bonds as per the Rule, the Signatory Airline agrees to execute the Continuing Disclosure Agreement incident to such financing. Currently, American Airlines is the only "Obligated Party".

Bond Documents Flow of Funds

All Project Revenues shall be deposited, maintained and paid as set forth in the Bond Documents.

Establishment of Bond Redemption and Improvement Account, O&M Account and Discretionary Account

The Signatory Airlines and the City have agreed under the Airline Agreement to establish the Bond Redemption and Improvement Account, O&M Account and Discretionary Account pursuant to the Ordinances and the Airline Agreement, which accounts shall have the uses described in the Official Statement under the caption "SECURITY FOR THE BONDS – Flow of Funds and Application of Project Revenues".

RATES, FEES AND CHARGES

Terminal Rentals, Ramp Area Rentals and Landing Fee Rates

For purposes of developing rentals, fees and charges under the Airline Agreement, the Airport System has been divided into the following cost centers to which all revenues, expenses, and debt service on Airport Revenue Bonds are allocated. Under the Airline Agreement, each Signatory Airline agrees that, pursuant to the Authorizing Legislation (as defined therein), which includes the General Ordinance, the City shall impose, charge and collect and the Signatory Airline agrees to pay such rental charges and fees as may be required pursuant to the Authorizing Legislation (including the Rate Covenant).

Terminal Area. Revenues from the Terminal Building consist of concession revenues, Terminal Rentals, International Common Use Area Revenues, and miscellaneous revenues.

Airfield Area, Other Buildings and Areas, and Northeast Airport. Revenues from the Airfield Area, Other Buildings and Areas, and Northeast Airport consist of landing fees, site rentals, fuel flowage fees, concession fees and other direct charges.

Ramp Areas. Revenues from the Ramp Areas consist of charges for use of aircraft parking ramps.

Outside Terminal Area. Outside Terminal Area revenues comprise net parking revenues, certain rental car revenues, certain ground transportation revenues, and revenues from a hotel.

Airport Services. Revenues from Airport Services consist of revenues not directly accounted for in the other Cost Centers. Expenses associated with Airport Services are allocated to the other Cost Centers based on the proportionate share of Operating Expenses and Non-Airline Revenues directly allocated to each such Cost Center.

Adjustment of Rentals, Fees, and Charges

The Terminal Rentals, Ramp Premises Rate and Landing Fee Rate are subject to adjustment as of July 1, 2016, and each July 1 thereafter during the term of the Airline Agreement. Signatory Airline rates, fees and charges will be recalculated annually for each Fiscal Year and made effective as of July 1 of each such Fiscal Year.

Terminal Rentals. Terminal Rentals are calculated to ensure that all debt service requirements, operating expenses and fund requirements allocable to the Terminal Building are recovered according to a cost-center residual rate calculation methodology. The Terminal Area Requirement for each Fiscal Year is the amount in the Annual Budget equal to: (1) the sum of (a) Operating Expenses, Debt Service and Fund Requirements allocated to the Terminal Area Cost Center and (b) any deficit or credit estimated in the Annual Budget for operation of the Terminal Area during the then-current Fiscal Year or any adjustment carried over from the preceding Fiscal Year to reflect any difference between the actual versus estimated surplus or deficit, less (2) the sum of (a) all Non-Airline Revenues allocated to the Terminal Area Cost Center, and (b) the Airline Revenue Allocation allocated to the Terminal Area Cost Center.

For use of the international terminal facilities, the City collects from the Signatory Airlines Federal Inspection Services ("FIS") Area charges, departure and arrival gate use fees, and space rentals for leased areas. The FIS Area includes space for customs, border protection, and immigration inspection offices; inbound baggage and international baggage claim facilities; and a pro rata share of public space. FIS Area charges are calculated by dividing the total cost of FIS space by the number of deplaning passengers using the FIS facilities.

Ramp Area Rentals. Ramp Area Rentals are calculated to ensure that all debt service requirements, operating expenses, and fund requirements allocable to the Ramp Area are recovered according to a cost-center residual rate calculation methodology. The Ramp Area Requirement for each Fiscal Year is the amount in the Annual Budget equal to: (1) the sum of (a) Debt Service and Fund Requirements allocated to the Ramp Area Cost Center and (b) any deficit or credit estimated in the Annual Budget for operation of the Ramp Area during the then-current Fiscal Year or any adjustment carried over from the preceding Fiscal Year to reflect any difference between the actual versus estimated surplus or deficit, less (2) all Non-Airline Revenues allocated to the Ramp Area Cost Center.

Landing Fee Rates. Signatory Airline Landing Fees are calculated according to a modified cost-center residual rate calculation methodology to recover the net costs of the Airfield Area, Other Buildings and Areas, and Northeast Airport cost centers. The Airfield Area Requirement is equal to: (1) the sum of (a) Operating Expenses, Debt Service and Fund Requirements for the Fiscal Year allocable to the Airfield Area, Other Buildings and Areas and Northeast Airport, and (b) any deficit or credit estimated in the Annual Budget for operation of the Airfield Area, the Other Buildings and Areas and the Northeast Airport during the then-current Fiscal Year or any adjustment carried over from the preceding Fiscal Year to reflect any difference between the actual versus estimated surplus or deficit, less (2) the sum of (a) all Non-Airline Revenues allocated to the Airfield Area, Other Buildings and Areas and Northeast Airport, (b) all Non-Signatory Landing Fees, and (c) the Airline Revenue Allocation allocable to the Airfield Area, if any.

Annual Adjustment. The Aviation Operating Fund budget is developed annually by the City to provide sufficient appropriations for the payment of all operating expenses and debt service payments projected for the Airport System for the ensuing Fiscal Year and satisfaction of the Rate Covenant. The budget, together with all other operating budgets of the City, is submitted by the Mayor to City Council for adoption at least 90 days prior to the beginning of such Fiscal Year. On the basis of the Aviation Operating Fund budget and the applicable Rate Covenants prescribed in the General Ordinance, the City computes the rates and charges which it regards as necessary for the ensuing Fiscal Year. Under the Airline Agreement, the City must provide such computations to the Signatory Airlines no less than 45 days, and hold a consultation meeting no less than 30 days, prior to implementation of the adjustment.

Mid-Year Adjustment. Additional provisions permit adjustments during any Fiscal Year in the event the City estimates a substantial (10% or more) decrease in revenues or increase in expenses. Under the Airline Agreement, the City must hold a consultation meeting with the Signatory Airlines no less than 30 days prior to any such mid-year adjustment.

Accommodation of Signatory Airlines

The Airline Agreement provides the basis for the use and lease of the Airport's terminals, aprons, and other areas. Under the Airline Agreement, to promote the high utilization of gates, all gates are being leased on a preferential-use basis or assigned on a common-use basis.

The Airline Agreement contains provisions obligating each Signatory Airline to accommodate the proposed operations of another airline at such Signatory Airline's preferential-use premises under certain circumstances if (i) the City cannot accommodate the existing or proposed operations of the requesting airline (either a Signatory Airline or Non-Signatory Airline) on a common-use gate, and (ii) the use by the requesting airline would not interfere with a Signatory Airline's operations.

If the requesting airline's operations cannot be accommodated at a Signatory Airline's preferential-use premises, the Airline Agreement also provides for the reallocation of leased gates and other terminal areas to provide facilities for lease to a requesting airline or for additional common-use gates. The City may reallocate a portion of any Signatory Airline's leased premises according to specified procedures if such Signatory Airline does not maintain certain minimum use requirements. The minimum use requirement ranges between 4.25 departures per gate per day for a Signatory Airline leasing only one gate to 5 departures per gate per day for Signatory Airlines leasing four or more gates.

Passenger Facility Charges

The City has the right to assess Airline passengers a PFC for the use of the Airport and the Signatory Airlines shall collect on behalf of and remit to City on a timely basis any such charges, including but not limited to holding any charges collected by the Signatory Airline, pending remittance to the City, in trust for the benefit of the City. The Signatory Airlines shall remit PFC to the City, and must include an itemized statement with its payment supporting the calculation of the PFC remittance.

Default Rates

If the City shall, at any time or times, accept any payments of Rents after they shall become due and payable, such acceptance shall not excuse subsequent delays, or constitute, or be construed to be a waiver of any or all of City's rights hereunder. The Signatory Airlines shall pay interest at the Default Rate on all payments which are unpaid as of the first day after the day on which such payment is due to the City, or such other maximum allowable interest rate should the Default Rate violate any applicable laws or regulations.

CAPITAL EXPENDITURES

Majority-in-Interest Approval of Capital Expenditures

Under the Airline Agreement, the Signatory Airlines approved $173.25 million in Capital Expenditures and, as described in the Official Statement under the caption "CAPITAL IMPROVEMENT PROJECTS AT THE AIRPORT", on or prior to December 31, 2016, the Signatory Airlines are required to approve an additional project or projects. The Airline Agreement does not limit or restrict the right of the City to implement Capital Improvement Projects within the Airport System at any time; the lack of approval of the Capital Improvement Project by a Majority-in-Interest of the Signatory Airlines ("MII Approval") after consultation with the City (other than certain exempted projects that do not require approval) prevents the City from including the cost of such Capital Improvement Project in the applicable rate base for the Airline Cost Centers during the term of the Airline Agreement.

Under the Airline Agreement, Capital Expenditures are deemed approved by the Signatory Airlines unless they are specifically disapproved by a Majority-in-Interest. For any additional projects affecting only Terminal Area rentals, fees, and charges, Majority-in-Interest is defined as no less than 50% plus one of the number of Eligible Signatory Passengers Signatory Airlines representing more than 50% of the Signatory Passenger Airline Enplaned Passengers, including passengers from Affiliates for the most recently reported twelve month period for which data are available. For any additional projects that will impact the rates, fees and charges of the Airfield, the Other Buildings and Areas, or the Philadelphia Northeast Airport Cost Centers, Majority-in-Interest is defined as no less than (i) 50% plus one of the number of Eligible Signatory Airlines, and (ii) more than 50% of the Total Maximum Landed Weight for the most recently reported twelve month period for which data are available.

Application of Airport Expenses for Capital Improvement Projects

Approved Projects. The Airport Expenses for Capital Improvement Projects that are exempt from a Signatory Airline Consultation Process or deemed approved by the Eligible Signatory Airlines shall be included in the applicable Airline Cost Center rate base upon the Substantial Completion Date of such Capital Improvement Project.

Disapproved Projects. The Airport Expenses for Capital Expenditures or Capital Improvement Project funding variances that are disapproved by the Eligible Signatory Airlines may not be included in an Airline Cost Center rate base unless and until a subsequent Signatory Airline Consultation Process approves the Capital Expenditure or funding variance, as applicable.

Bankruptcy

Notwithstanding any provision contained in the Airline Agreement and to the extent consistent with Federal bankruptcy law, any party to the Airline Agreement which seeks protection under the Federal bankruptcy code, or is currently operating under the protection of the Federal bankruptcy code, herein called "Debtor", shall be prohibited from conveying its interest under the Airline Agreement to any other entity without prior approval of City. In the event that such a Debtor intends to assume the Airline Agreement, or assume and assign the Airline Agreement pursuant to 11 U.S.C. Section 365, Bankruptcy-Executory Contracts and Unexpired Leases, the Debtor shall be required to immediately cure any and all defaults and provide adequate assurance of future performance under the Airline Agreement which shall include, but not be limited to (i) adequate assurance of the reliability of the proposed source for the rentals, fees and charges due under the Airline Agreement upon the assumption of the Airline Agreement, and (ii) adequate assurance that all other consideration due under the Airline Agreement shall be forthcoming upon the assumption of the Airline Agreement.

DEFAULT AND RIGHTS AND REMEDIES UPON DEFAULT

Events of Default

The occurrence of any of the following, subject to rights to cure and other terms and conditions set forth in the Airline Agreement, shall constitute a material breach of the Airline Agreement by the Signatory Airline and an Event of Default:

(a) Signatory Airline's abandonment or constructive abandoning of the Signatory Airline's Terminal Area Leased Premises as determined in the Airline Agreement;

(b) Signatory Airline's failure to pay any Monthly Rents, Passenger Facility Charge payments or any other payment due under the Airline Agreement;

(c) Signatory Airline's failure to pay, when due, any installment of Additional Rents or other sum required to be paid under the Airline Agreement;

(d) Signatory Airline's failure to observe and comply with the requirements of the Airport Security Program, Environmental Compliance, Insurance Requirements, Local Requirements, and provisions of the Airline Agreement regarding Certification of Non-Indebtedness and the Northern Ireland Provision where such failure continues for thirty (30) days, after notice thereof to the Signatory Airline; provided, however, that if the nature of the default is such that the same cannot reasonably be cured within such thirty (30) day period, the Signatory Airline shall not be deemed to be in default if the Signatory Airline shall within such period commence such cure and thereafter diligently prosecutes the same to completion, and advises the City of same, but in no event for longer than sixty (60) days after notice to Signatory Airline without the consent of the City, or for such shorter cure period as may be specifically prescribed in the Airline Agreement;

(e) Signatory Airline's failure to observe and perform any other provision or covenant of the Airline Agreement to be observed or performed by Signatory Airline, where such failure continues for thirty (30) days, after notice thereof to the Signatory Airline; provided, however, that if the nature of the default is such that the same cannot reasonably be cured within such thirty (30) day period, the Signatory Airline shall not be deemed to be in default if the Signatory Airline shall within such period commence such cure and thereafter diligently prosecutes the same to completion, and advises the City of same, but in no event for longer than sixty (60) days after notice to Signatory Airline without the consent of the City;

(f) The filing of a petition by or against Signatory Airline for relief in bankruptcy or insolvency or for its reorganization or for the appointment pursuant to any local, state or federal bankruptcy or insolvency law of a receiver or trustee of any part of Signatory Airline's property; or, an assignment by Signatory Airline for the benefit of creditors; or the taking possession of the property of Signatory Airline by any local, state or federal governmental officer or agency or court-appointed official for the dissolution or liquidation of Signatory Airline or for the operating, either temporarily or permanently, of Signatory Airline's business, provided,

(g) Any failure occurring after City has sent two (2) notices within a twelve (12) month period; and, in any event, more than six (6) Events of Default in any twelve (12) month period will render the next default an automatic Event of Default; and

(h) A default by a Signatory Airline which is not cured within the applicable cure period in any other Airline Agreement entered into with City relating to the Airport System.

Remedies of City

Upon the occurrence of any Event of Default set forth in the Airline Agreement, the City, at its option, subject to the terms and conditions set forth in the Airline Agreement, may take all or any of the following actions:

(a) Perform any obligations of Signatory Airline which Signatory Airline has failed to perform in a timely manner, after reasonable notice, in which case Signatory Airline shall pay to the City, upon receipt of invoice, the City's costs incurred therefor, plus a fifteen percent (15%) administrative fee,

(b) Terminate the Airline Agreement and, until such time as the City has relet the space leased to another Airline thereunder, recover (i) all unpaid Rents which have accrued prior to the date of said Event of Default and which are then due and payable, (ii) damages for the period following the termination of the Term, based upon any and all amounts which Signatory Airline would have been obligated to pay for the balance of the Term, and the City may declare such sums to be immediately due and payable, and (iii) any and all sums due under the Airline Agreement;

(c) The City, at any time after the occurrence of any Event of Default whether or not the Airline Agreement has been terminated as aforesaid, may reenter and repossess, the Signatory Airline's Terminal Area Leased Premises and any part thereof with or without process of law, provided no undue force shall be used, and shall have the option, but not the obligation either in its own name, as agent for Signatory Airline if the Airline Agreement has not been terminated or for its own behalf if the Airline Agreement has been terminated, to give rights and privileges to or lease to other Airlines or users, all or any part of the Signatory Airline's Terminal Area Leased Premises;

(d) In the event that the City elects to terminate the Airline Agreement, the City at its option, may serve notice upon Signatory Airline that the Airline Agreement and the then unexpired Term hereof shall cease and expire and become absolutely void on the date specified in such notice,

(e) Signatory Airline further expressly authorizes and empowers (which power is coupled with an interest) the City, upon the occurrence of an Event of Default, to exercise the remedy of self-help with respect to the Proprietary Equipment and to enter upon the Signatory Airline's Terminal Area Leased Premises, distrain upon and remove therefrom all inventory, equipment, machinery, trade fixtures and personal property of whatsoever kind or nature, whether owned by Signatory Airline or by others;

(f) The City shall have the right of injunction, in the event of a breach or default or threat thereof by Signatory Airline of any of the Airline Agreements, conditions, covenants or terms hereof, to restrain the same and the right to invoke any remedy allowed by law or in equity;

(g) The Signatory Airlines expressly waive the benefits of all laws, now or hereafter in force, exempting any of Signatory Airline's property on the Signatory Airline's Terminal Area Leased Premises or elsewhere from distraint, levy or sale in any legal proceedings taken by the City to enforce any rights under the Airline Agreement.

(h) The City shall have the right, upon any uncured Event of Default thereunder, to cancel the security badge access to the Airport of all employees of Signatory Airline.

Neither the Airline Agreement nor any rights or privileges thereunder shall be an asset of a Signatory Airline in any bankruptcy, insolvency or reorganization proceeding. If the City shall not be permitted to terminate the Airline Agreement because of the provisions of the United States Bankruptcy Code, the Signatory Airline or any trustee for it shall, within fifteen (15) days upon request by the City to the Bankruptcy Court, assume or reject the Airline Agreement, provided however, that such Signatory Airline may not assume the Airline Agreement unless all defaults thereunder shall have been cured, the City shall have been compensated for any monetary loss resulting from such default and the City shall be provided with adequate assurance of full and timely performance of all provisions, terms and conditions of the Airline Agreement on the part of Signatory Airline to be performed.

City's Right to Cure

The City may perform, in whole or in part, any obligation of which a Signatory Airline is in default, either prior to (provided such Signatory Airline is not in the process of curing its default) or following the maturation of such default into an Event of Default, and such Signatory Airline shall pay on demand as Rents any expenditures made pursuant hereto and the amount of any obligations incurred in connection herewith, plus per annum interest at the Default Rate from the date of any such expenditure, and the City's performance shall not constitute a cure of such default by such Signatory Airline.

DAMAGE OR DESTRUCTION

Partial Damage

If all or any portion of the Signatory Airline's Leased Premises (but specifically excluding any Airline Improvements, Airline Equipment, or personal property, fixtures, equipment or other installations provided by a Signatory Airline in and to the Signatory Airline's Leased Premises), is partially damaged by fire, explosion, the elements, act(s) of war or terrorism, or other casualty, but not rendered untenantable, the same will be repaired with due diligence by City at its own cost and expense, to the extent and only to the extent of insurance proceeds received by City, and there shall be no abatement of Signatory Airline payments, provided, however, that if any damage is caused by the act or omission of a Signatory Airline, its Affiliates, sublessees, agents, or employees, such Signatory Airline shall be responsible at its expense for making the necessary repairs for which it is responsible as approved by the City. If a Signatory Airline fails to make the necessary repairs in a timely manner as determined by the City, then the Signatory Airline shall reimburse the City for the costs and expenses incurred in such repair, plus a fifteen percent (15%) administrative fee.

Damage Suitable for Repair

If damages referred to in the Airline Agreement shall be so extensive as to render part or all of the Signatory Airline's Leased Premises untenantable, but capable of being repaired in one hundred and twenty (120) days, the same shall be repaired with due diligence by the City at its own cost and expense, to the extent and only to the extent of insurance proceeds received by City, and Signatory Airline payments payable under the Airline Agreement shall abate, in proportion to the portion of the Signatory Airline's Leased Premises rendered untenantable, from the time of such damage until such time as the Signatory Airline's Leased Premises are fully restored and certified by the City's engineers as ready for occupancy; provided, however, that if any damage is caused by the act or omission of a Signatory Airline, its Affiliates, sublessees, agents, or employees, such Signatory Airline shall be responsible, at its expense, for making the necessary repairs as approved by the City. If the Signatory Airline fails to make the necessary repairs for which it is responsible in a timely manner as determined by the City, then the Signatory Airline shall reimburse the City for the costs and expenses incurred in such repair, plus a fifteen percent (15%) administrative fee.

Complete Damage

In the event the Signatory Airline's Leased Premises are completely destroyed by fire, explosion, the elements, act(s) of war or terrorism, or other casualty or so damaged that they are untenantable and cannot be replaced except after more than one hundred and twenty (120) days, the City shall be under no obligation to repair, replace, and reconstruct said Signatory Airline's Leased Premises and such Signatory Airline payments shall abate as of the time of such damage or destruction and shall cease until such time as said Signatory Airline's Leased Premises are fully restored, or until the City provides substitute facilities, acceptable to the Signatory Airline, for use by the Signatory Airline. If within twelve (12) months or such other time as may be mutually agreed to by the City and the Signatory Airline after the time of such damage or destruction said Signatory Airline's Leased Premises shall not have been repaired or reconstructed, and the City has not supplied substitute facilities, acceptable to the Signatory Airline, the Signatory Airline may give City notice of its intention to cancel this Airline Agreement in its entirety as of the date of such damage or destruction.

Airline Acts or Omissions

Notwithstanding the foregoing, if said Signatory Airline's Leased Premises are completely destroyed as a result of the negligence of Signatory Airline or its Affiliates, sublessees, agents, or employees, applicable fees and charges shall not abate and City may, in its discretion, require Signatory Airline to repair and reconstruct said Signatory Airline's Leased Premises within twelve (12) months or such other time as may be mutually agreed to by City and Signatory Airline of such destruction and pay the costs therefor; or City may repair and reconstruct said Signatory Airline's Leased Premises within twelve (12) months of such destruction and Signatory Airline shall be responsible for reimbursing City for the costs and expenses incurred in such repair, plus a fifteen percent (15%) administrative fee.

INSURANCE AND INDEMNIFICATION

Insurance Requirements

During the Term and any extension thereof, each Signatory Airline shall, at its sole cost and expense, obtain and maintain in full force and effect, and promptly pay all premiums, when due, for, the following types of insurance: (1) All Risk Property Insurance, (2) Boiler and Machinery, (3) Automotive Liability, (4) Worker's Compensation and Employer's Liability, (5) General Liability Insurance/Aviation Liability, (6) Aircraft Liability, (7) Contractors', (8) Commercial General Liability insurance policy for premises operations, products/completed operations, personal and advertising injury, broad form property damage, contractual liability, (9) Automotive liability insurance covering liability arising from the ownership, maintenance, and/or use of all owned, non-owned and hired, leased and rented trucks and/or automobiles, (10) Professional liability insurance shall be maintained when any architect or engineer performs, directly or indirectly, work for or on behalf of Signatory Airline at Airport or involving Signatory Airline's operations and/or the Total Airline Leased Premises with a $1,000,000 policy limit, (11) Environmental Impairment or Pollution Liability Insurance, and (12) Liquor Liability Insurance if alcoholic beverages are served or sold on the Signatory Airline's Leased Premises, liquor liability insurance coverage shall be maintained in an amount of $5,000,000; provided, however, that no alcoholic beverages shall be served or sold unless approved in writing by the City.

Indemnification

General. To the fullest extent provided by law, each Signatory Airline shall indemnify, defend and hold harmless the City, its officials, agents, employees, representatives, successors and assigns (the "Indemnified Parties") from and against all liability for claims, suits, causes of action, liabilities, losses, costs and expenses (including reasonable attorneys' fees), for which the Indemnified Parties may be held liable by reason of injury (including death) to any person (including Signatory Airline's employees) or damage to any property whatsoever kind or nature except to the extent caused by City's sole negligence or willful misconduct of every kind relating to or arising in connection with: (1) Any act or negligent omission of the Signatory Airline, its agents, directors, officers, employees, contractors or sublessees arising out of or in any manner connected with the Total Airline Leased Premises (including, but not limited to, Signatory Airline's use or occupancy of Total Airline Leased Premises, ingress or egress to Total Airline Leased Premises, access or use of parking lots, walkways or common areas and any alterations or work done in or about the Total Airline Leased Premises by the Signatory Airline or on the Signatory Airline's behalf); (2) Any breach, violation or nonperformance of any covenant, term or condition of this Airline Agreement to be performed or observed by the Signatory Airline, or of any restrictions of record or of any applicable laws, ordinances, statues, rules, codes or regulations, affecting the Total Airline Leased Space, Proprietary Equipment (unless such Proprietary Equipment was purchased or constructed by City in contravention of such applicable laws and/or regulations) or Airline Equipment, or any part of the Total Airline Leased Space, Proprietary Equipment or Airline Equipment, or the ownership, occupancy or use thereof; (3) Any encroachment of improvements made by Signatory Airline upon property adjoining the Total Airline Leased Premises.

Said indemnification does not apply to City-maintained equipment or property, unless caused by Signatory Airline's negligence. Nothing herein shall prevent the Signatory Airline(s) to which City has tendered a matter covered by any indemnification provision of its/their Airline Agreement from joining as a defendant any Air Transportation Company to the extent permitted by applicable law.

Condemnation / Eminent Domain

Total Taking. During the term of the Airline Agreement, if the whole, or, if such a portion of the Signatory Airline's Leased Premises as will materially interfere with Signatory Airline's conduct of its business be taken or acquired or be sold to a government in lieu thereof under threat of such a taking (each event hereinafter called a "taking") for any public or quasi-public use or purpose under any power of eminent domain or condemnation, then, and in any of such events, the term of the Airline Agreement shall cease and terminate on the date that title vests in the condemning authority pursuant to such proceedings or under such sale in lieu thereof. Signatory Airline shall pay all required payments apportioned to the date of such termination and shall promptly vacate the Signatory Airline's Leased Premises. All sums representing prepaid rents, fees or charges, if any, shall be promptly repaid to Signatory Airline.

Partial Taking. If the taking of the Signatory Airline's Leased Premises is not the whole and not such a portion as will materially interfere with Signatory Airline's conduct of its business, then the Airline Agreement shall expire as to that portion of the Signatory Airline's Leased Premises taken but shall continue in full force and effect as to that portion of the Signatory Airline's Leased Premises not taken.

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APPENDIX VI

FORM OF APPROVING OPINION OF CO-BOND COUNSEL

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FORM OF APPROVING OPINION OF CO-BOND COUNSEL

September 3, 2015

Re: $97,780,000 City of Philadelphia, Pennsylvania
Airport Revenue Refunding Bonds, Series 2015A (AMT)

To the Purchasers of the Within-Described 2015 Bonds:

We have acted as Co-Bond Counsel in connection with the authorization, issuance and sale by the City of Philadelphia, Pennsylvania (the "City") of its Airport Revenue Refunding Bonds, Series 2015A (AMT) (the "2015 Bonds"). The 2015 Bonds are being issued under and pursuant to the First Class City Revenue Bond Act of the Commonwealth of Pennsylvania, Act No. 234 of October 18, 1972, P.L. 955, as amended (the "Act"), and the Amended and Restated General Airport Revenue Bond Ordinance approved June 16, 1995, as supplemented and amended (the "Original Ordinance"), including as supplemented by the Fourteenth Supplemental Ordinance approved on June 18, 2015 (the "Fourteenth Supplemental Ordinance," together with the Original Ordinance, the "General Ordinance"). The proceeds of the 2015 Bonds, together with other available monies, are being issued to refund all of the City's outstanding Airport Revenue Bonds, Series 2005A (the "2005 Bonds") and pay the costs of issuance of the 2015 Bonds. Capitalized terms used herein and not otherwise defined have the meanings ascribed hereto in the General Ordinance.

The 2015 Bonds are issued in fully registered form and are dated, are in such denominations, bear interest, mature and are subject to redemption prior to maturity as set forth in the form of the respective series of the 2015 Bonds. The 2015 Bonds are payable as to principal or redemption price at the principal Philadelphia corporate trust office of U.S. Bank National Association (successor fiscal agent to Wachovia Bank, National Association) (the "Fiscal Agent").

The 2015 Bonds, together with outstanding issues of the City's Airport Revenue Bonds, and all other airport revenue bonds hereafter issued by the City for the purposes and upon the terms and conditions prescribed in the General Ordinance are equally and ratably secured to the extent provided in the General Ordinance, as the case may be, and the Act, by a pledge of the Pledged Amounts. In accordance with Section 4.02 of the Original Ordinance and pursuant to the Fourteenth Supplemental Ordinance, "Pledged Amounts" with respect to the 2015 Bonds also include certain pledged passenger facility charges as provided in the Bond Committee Determination dated August 26, 2015.

As Co-Bond Counsel for the City, we have examined the Act and such Constitutional provisions, statutes and regulations of the Commonwealth of Pennsylvania and such other records and documents of the City as we have deemed necessary for the purposes of this opinion. We have also examined the proceedings authorizing the issuance and sale of the 2015 Bonds, including the General Ordinance, the Fourteenth Supplemental Ordinance, the transcript of the proceedings filed by the City with the Court of Common Pleas of Philadelphia, together with evidence of filing thereof, and certain statements which we have considered relevant, including without limitation, an opinion of the City Solicitor of the City and a certification of officials of the City having responsibility for issuing the 2015 Bonds given pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and regulations promulgated thereunder. We have also examined a fully executed and authenticated 2015A Bond and have assumed that all other 2015A Bonds have been similarly executed and authenticated.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments we have examined, including without limitation, the authenticity of all signatures appearing thereon.

On the basis of the foregoing, we are of the opinion that:

1. Under the Constitution and laws of the Commonwealth of Pennsylvania, including the Act, the General Ordinance and the Fourteenth Supplemental Ordinance, the City is authorized to issue the 2015 Bonds, and the terms thereof comply with the requirements of the Act, the General Ordinance and the Fourteenth Supplemental Ordinance.

2. The General Ordinance and the Fourteenth Supplemental Ordinance have been duly enacted and the covenants and agreements of the City contained therein, including specifically but not by way of limitation, the pledge of the Pledged Amounts, as therein described, constitute legal, valid and binding obligations of the City with respect to the 2015 Bonds and are enforceable against the City in accordance with their respective terms except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws, or by legal or equitable principles affecting creditors' rights generally.

3. The 2015 Bonds have been duly authorized and issued and are valid and binding obligations of the City, are enforceable against the City in accordance with their terms and are limited obligations of the City, payable solely out of the Pledged Amounts, as provided in the General Ordinance for the timely payment of the principal thereof, at their respective maturities or redemption dates and the interest thereon when due.

4. The 2015 Bonds do not pledge the credit or taxing power, nor create any debt or charge against the tax or general revenues of the City, nor do they create any lien against any property of the City other than revenues, monies and funds pledged in the General Ordinance.

5. The issuance of the 2015 Bonds does not cause the debt of the City to exceed constitutional debt limitations.

6. Interest (including accrued original issue discount) on the 2015 Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, except as to interest on any 2015 Bond during any period such 2015 Bond is held by a person who is a "substantial user" of the facilities refinanced with the 2015 Bond proceeds or a "related person," as those terms are used in Section 147(a) of the Code. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all applicable federal income tax law requirements that must be satisfied subsequent

to the issuance of the 2015 Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the 2015 Bonds to be includable in gross income retroactive to the date of issuance of the 2015 Bonds. The City has covenanted to comply with all such requirements.

Interest on the 2015 Bonds is treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum tax.

We express no opinion regarding other federal tax consequences relating to the 2015 Bonds or the receipt of interest thereon.

7. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, the 2015 Bonds and the interest thereon are free from taxation for state and local purposes within the Commonwealth of Pennsylvania, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2015 Bonds or the interest thereon.

We express no opinion with respect to, and assume no responsibility for, the accuracy and completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the offering of the 2015 Bonds, and make no representation that we have independently verified the contents thereof.

Finally, we call to your attention that the rights of the holders of the 2015 Bonds and the enforceability thereof and of the General Ordinance and the Fourteenth Supplemental Ordinance may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws or equitable principles affecting creditors' rights generally.

Very truly yours,

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APPENDIX VII

FORM OF CONTINUING DISCLOSURE AGREEMENT

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FORM OF CONTINUING DISCLOSURE AGREEMENT

$97,780,000
CITY OF PHILADELPHIA, PENNSYLVANIA
AIRPORT REVENUE REFUNDING BONDS
SERIES 2015A (AMT)

This Continuing Disclosure Agreement (the "Agreement") dated as of September 1, 2015 by and between the City of Philadelphia, Pennsylvania (the "City") and Digital Assurance Certification, L.L.C., as dissemination agent (the "Dissemination Agent") and acknowledged by American Airlines Group, Inc. ("American Airlines") in connection with the issuance and sale by the City of $97,780,000 aggregate principal amount of Airport Revenue Refunding Bonds, Series 2015A (AMT) (the "Bonds").

The Bonds are being issued and secured under the provisions of The First Class City Revenue Bond Act, P.L. 955, Act No. 234 of the General Assembly of the Commonwealth of Pennsylvania approved October 18, 1972 (the "Act"); the Amended and Restated General Airport Revenue Bond Ordinance, approved June 16, 1995 (Bill No. 950282), as amended and supplemented (the "General Ordinance"), the Fourteenth Supplemental Ordinance (Bill No. 150510), approved by the Mayor on June 18, 2015 (the "Fourteenth Supplemental Ordinance" and together with the General Ordinance sometimes hereinafter referred to, collectively, as the "Ordinances"). Certain matters concerning the Bonds have been determined pursuant to the Ordinances by the Bond Committee of the City, consisting of the Mayor, the City Controller and the City Solicitor ("Bond Committee"), in an authorization for the Bonds dated August 26, 2015 ("Bond Authorization", and together with the Act and the Ordinances, the "Authorizing Acts").

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, 2016, the Disclosure Representative shall deliver to the Dissemination Agent no later than February 28, 2017, 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 City agrees to use its reasonable best efforts to cause any Obligated Person (to the extent such entity is not otherwise required under federal law to do so) to make annual financial information available as required by the Rule. The City takes no responsibility for the accuracy or completeness of such filings by any Obligated Person. The City's obligations under this paragraph are limited to and satisfied by the City's transmitting a notice to such Obligated Person that it has become an Obligated Person under this Disclosure Agreement, by enclosing a copy of this Agreement and the Rule, and by requesting that such person transmit back to the City an acknowledgement and acceptance of such person's obligations under the Rule with regard to the Bonds. The City agrees to notify the Dissemination Agent of any changes in the identity of any Obligated Person.

(c) 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 the 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 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, 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 or the Obligated Person 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 by 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, 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) 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, 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(a) 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 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 under the Authorizing Acts, and the rights and remedies provided by the Authorizing Acts upon the occurrence of a 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) "Airport System" means the Philadelphia International Airport and the Northeast Philadelphia Airport, both of which are currently owned by the City and operated by the Division of Aviation of the City's Department of Commerce.

(2) "Annual Financial Information" means, collectively, (i) a copy of the Comprehensive Annual Financial Report ("CAFR"), which contains the Audited Financial Statements, (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(d) and (e) of this Agreement, and (iii) to the extent such information is not contained in the CAFR, an update of the information in the Official Statement contained in -

Table 3 - Annual PFC Revenues, Table 5 – Historical Enplaned Passengers, Table 6 – Historical Total Enplaned Passengers, Table 9 – Summary of Historical Project Revenues and Expenses of the Airport System, and Appendix II – Financial Statements of the Division of Aviation. 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(2), 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, (B) Financial Statements of the Division of Aviation, (C) to the extent not otherwise updated in the CAFR or the Financial Statements of the Division of Aviation, annual updates to the Tables specified in clause (iii) above. If at any time the City deletes, for the purposes of a then-current Appendix, certain financial information or operating date from such Appendix 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.

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 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.

(3) "Audited Financial Statements" means the annual financial statements, if any, of the City and the Division of Aviation, 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 Sections 3.2(a) and (e) 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(a) hereof shall include a reference to the specific federal or Commonwealth law or regulation describing such accounting principles, or other description thereof.

(4) "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.

(5) "Commonwealth" means the Commonwealth of Pennsylvania.

(6) "Counsel" means any nationally recognized bond counsel or counsel expert in federal securities laws.

(7) "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.

(8) "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.

(9) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, 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 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 Airport or the sale of all or substantially all of the assets of the Airport, 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) "Obligated Person" means the City and any airline or other entity using the Airport System pursuant to an agreement (for more than one year from the date in question) that includes debt service on the Bonds as part of the calculation of rates and charges, under which agreement such airline or other entity has paid amounts equal to at least 20% of the Project Revenues (as defined in the Ordinances) of the Airport System for each of the two prior Fiscal Years of the Airport System.

(12) "Official Statement" means the Official Statement dated August 26, 2015 of the City relating to the Bonds.

(13) "Registered Owner" or "Registered Owners" means, for so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, 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.

(14) "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.

(15) "SEC" means the United States Securities and Exchange Commission.

(16) "Securities Depository" shall mean The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or any successor thereto.

(17) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

(18) "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 tis 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.

CITY OF PHILADELPHIA

By: ______________________________

Name: Rob Dubow
Title: Director of Finance

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent

By: ______________________________

Name:
Title:

ACKNOWLEDGEMENT AND AGREEMENT:

American Airlines Group, Inc. ("American Airlines") hereby acknowledges its current status as an Obligated Person hereunder and the City's undertaking to provide information in accordance with the Rule as described herein. So long as it is an Obligated Person, American Airlines agrees to make available, within 120 days after the end of its fiscal year (December 31), with respect to the information regarding American Airlines set forth in the Official Statement under the caption "THE AIRPORT SYSTEM – AIRPORT ACTIVITY AND SIGNATORY AIRLINES" such information regarding itself and its operations as is required by the Rule.

AMERICAN AIRLINES GROUP, INC.

By:______________________________

Name:
Title:

APPENDIX VIII

BOOK-ENTRY ONLY SYSTEM

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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 City, the Fiscal Agent 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 Bonds under a book-entry system with no physical distribution of the Bonds made to the public. The 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 Bonds, each in the 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 Fiscal Agent 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 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity of the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and redemption price of, and interest on, the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, 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 City or the Fiscal Agent, 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 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, 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 CITY, THE FISCAL AGENT 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 BONDS (A) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE BONDS, OR (B) CONFIRMATION OF OWNERSHIP INTERESTS IN THE 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 CITY, THE FISCAL AGENT 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 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 BONDS; (E) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (F) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE BONDS.

Discontinuation of Book-Entry Only System

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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CITY OF PHILADELPHIA, PENNSYLVANIA • AIRPORT REVENUE REFUNDING BONDS, SERIES 2015A (AMT)

SEAL OF THE CITY OF PHILADELPHIA

PHILADELPHIA MANETO

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