

**Pennsylvania Intergovernmental
Cooperation Authority**



**Annual Report
for
Fiscal Year 1992**

October 31, 1992

Pennsylvania Intergovernmental Cooperation Authority

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Bernard E. Anderson

Vice Chairperson

Charles L. Andes

Secretary

Carol Gassert Carroll

Assistant Secretary

Handsel B. Minyard

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Authority Counsel

Reed Smith Shaw & McClay

Special Counsel to the Authority

Singley & Associates

Independent Auditors

Deloitte & Touche

The Mission of the Authority

The mission of the Authority, as stated in its enabling legislation, is as follows:

Policy.—It is hereby declared to be a public policy of the Commonwealth to exercise its retained sovereign powers with regard to taxation, debt issuance and matters of Statewide concern in a manner calculated to foster the fiscal integrity of cities of the first class to assure that these cities provide for the health, safety and welfare of their citizens; pay principal and interest owed on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper financial planning procedures and budgeting practices. The inability of a city of the first class to provide essential services to its citizens as a result of a fiscal emergency is hereby determined to affect adversely the health, safety and welfare not only of the citizens of that municipality but also of other citizens in this Commonwealth.

Legislative intent.—

(1) It is the intent of the General Assembly to:

(i) provide cities of the first class with the legal tools with which such cities can eliminate budget deficits that render them unable to perform essential municipal services;

(ii) create an authority that will enable cities of the first class to access capital markets for deficit elimination and seasonal borrowings to avoid default on existing obligations and chronic cash shortages that will disrupt the delivery of municipal services;

(iii) foster sound financial planning and budgetary practices that will address the underlying problems which result in such deficits for cities of the first class, which city shall be charged with the responsibility to exercise efficient and accountable fiscal practices, such as:

(A) increased managerial accountability;

(B) consolidation or elimination of inefficient city programs;

(C) recertification of tax-exempt properties;

(D) increased collection of existing tax revenues;

(E) privatization of appropriate city services;

(F) sale of city assets as appropriate;

(G) improvement of procurement practices including competitive bidding procedures; and

(H) review of compensation and benefits of city employees; and

(iv) exercise its powers consistent with the rights of citizens to home rule and self government.

(2) The General Assembly further declares that this legislation is intended to remedy the fiscal emergency confronting cities of the first class through the implementation of sovereign powers of the Commonwealth with respect to taxation, indebtedness and matters of Statewide concern. To safeguard the rights of the citizens to the electoral process and home rule, the General Assembly intends to exercise its power in an appropriate manner with the elected officers of cities of the first class.

(3) The General Assembly further declares that this legislation is intended to authorize the imposition of a tax or taxes to provide a source of funding for an intergovernmental cooperation authority to enable it to assist cities of the first class and to incur debt of such authority for such purposes; however, the General Assembly intends that such debt shall not be a debt or liability of the Commonwealth or a city of the first class nor shall debt of the authority payable from and secured by such source of funding create a charge directly or indirectly against revenues of the Commonwealth or city of the first class.

Source: Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Act of June 5, 1991, P.L. 9, No. 6) (the "PICA Act") Section 102.

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Pennsylvania Intergovernmental Cooperation Authority

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October 31, 1992

Honorable Richard A. Tilghman
Honorable Vincent J. Fumo

Honorable Dwight Evans
Honorable Joseph R. Pitts

Gentlemen:


We are pleased to transmit to you the first annual report of the Pennsylvania Intergovernmental Cooperation Authority, covering the period from the date of its creation (June 5, 1991) under Act 6 of 1991 (P.L. 9) (the "PICA Act") through June 30, 1992. Section 207 of the PICA Act provides for preparation and submission of an annual report as follows:

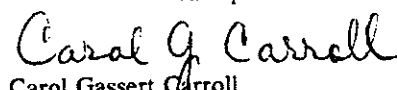
Every authority shall file an annual report with the Chairperson and the Minority Chairperson of the Appropriations Committee of the Senate and Chairperson and the Minority Chairperson of the Appropriations Committee of the House of Representatives, which shall make provisions for the accounting of revenues and expenses. The authority shall have its books, accounts and records audited annually in accordance with generally accepted auditing standards by an independent auditor who shall be a certified public accountant, and a copy of his audit report shall be attached to and be made a part of the authority's annual report. A concise statement shall be published annually in the Pennsylvania Bulletin.

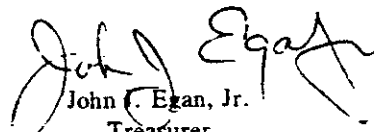
PICA's first year was an eventful period, during which the City of Philadelphia has shown signs of summoning the will and commitment to come to terms with its fiscal dilemma. As we have noted previously, the problems of the City did not come about overnight, nor are they entirely of its own making. There are forces at work, many of which are beyond the control of Philadelphia, both on the local and national level, which have exacerbated the consequences of the City's lack of commitment to developing and maintaining a system of financial accountability and responsibility.

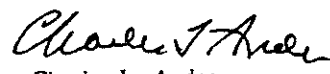
PICA has come on the scene as an impartial party, a provider of financial resources to give the City fiscal breathing room while fulfilling its much more vital role as an assessor of the City's capacity and commitment to meet the obligations it has set out in its Five Year Financial Plan - approved by PICA, but fashioned by the City's elected officials. PICA can only *assist* Philadelphia to meet its obligations and make the hard choices which inevitably must be made if it is to become the City its potential holds for it.


The members of the PICA Board are optimistic that they will do so, and we are mindful of the challenges which lie ahead.


Bernard E. Anderson
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Overview: PICA and its Role

The creation of PICA was accomplished through the efforts of many, from ordinary citizens to elected officials, business and civic leaders and average citizens, each of whom brought a unique perspective to bear on the problems of the City of Philadelphia - from local, regional and state vantage points. The resulting legislation, the PICA Act, represents a compromise fashioned to meet the requirements of the Constitution of the Commonwealth, the concepts of local government home rule and the interest of the State in the preservation of the financial integrity of its municipalities. The common goal was to create a statutory vehicle which would enable the City to "buy time" until it had the opportunity to repair the defects in the systems by which it estimates and collects revenues, and the manner in which those revenues are accounted for, budgeted and spent. In addition to providing a basis for a structural overhaul of the fiscal management of Philadelphia city government, the PICA Act was intended to provide an opportunity for Philadelphians to reach a consensus on priorities, assets and limitations in the decade of the 90's, but away from the pressure of imminent default.

The PICA Act anticipated that the City would request financial assistance from the Authority, an action which would necessitate the negotiation of an Intergovernmental Cooperation Agreement (the "Cooperation Agreement") and the eventual development by the City of a Five-Year Financial Plan (the "Plan"). The Authority evaluated and finally approved the initial Plan on May 18, 1992. The PICA Act provides for the issuance by the Authority, at the request of the City, of deficit reduction bonds, and bonds to finance a limited range of capital projects fitting within categories set out in the law, both to occur after the approval by PICA of the Cooperation Agreement and the Plan. PICA's issuance of \$474.5 million in aggregate principal amount of its Special Tax Revenue Bonds in June of 1992 completed the first phase of the process, and provided the City with a means to address its cash flow problems on a short-term basis. The harder tasks for the City, negotiating labor agreements, maintaining balance in the Plan, accomplishing its initiatives and fashioning a longer-term recovery plan, still remained after bond issuance.

More than just being a vehicle to permit Philadelphia to raise funds, however, PICA is charged with the responsibility to monitor compliance by the City with the provisions of the Plan. If necessary, the Authority has both the power and the responsibility to enforce the duty imposed upon the City in the PICA Act - to balance the Plan in each of its years - by withholding the transfer to Philadelphia of both a substantial amount of Commonwealth financial assistance and the proceeds of the PICA Tax described below, after deduction of debt service on PICA's bonds. The members of the Authority do not lightly contemplate the prospects for the necessity of such actions, but nonetheless are mindful of the severity of the fiscal situation and the nature of the remedies available to encourage the City's adherence to the Plan.

The goal of the PICA process is not to provide a vehicle for the Commonwealth's agents to wrest control of financial matters from the City, but rather is the restoration of Philadelphia to long-term fiscal self-sufficiency through an orderly and effective return to the public financial markets from which it was excluded in 1990 by the loss of its investment

grade ratings. While significant progress has been made, the limited success the City has had to date serves only to emphasize the very long road which lies ahead for the citizens of Philadelphia before the problems will be solved. The task of the City is to create the type of management structure - and an ethic - unlike anything which this City has ever seen.

The PICA Organization

The members of the Authority determined at a very early date that PICA should not become overburdened with staff, preferring instead to impress upon the City the necessity for Philadelphia to develop and implement its own solutions to its problems. The Authority's staff, which to date totals six, is organized to evaluate the actions of the City, not to replace those who are properly charged with administration of City affairs or development of underlying policies. The Authority hopes and intends that its tenure will not be for an extended period, and it does not seek to create a self-perpetuating bureaucracy.

The Five-Year Financial Plan

The PICA Act anticipated the development by the City of the Plan, and what is perhaps the most important part of a PICA Staff Report on the Plan stated:

[I]t is at least in part misleading to view the Plan as a "financial plan". In reality, the "financial" part of the process is not the most critical element. Rather, the Plan is actually a *management* plan with financial effects. In the end, the success of the initiatives in the Plan will depend substantially less upon the financial aspects of the document than the ability of the Administration to manage the Plan and its initiatives in such a way as to achieve the desired effects in the time available.

There should be no doubt that the goal of the Plan should be to re-order the manner in which the City prioritizes its actions and manages its work. Any attempt to balance the Plan and the City's budgets through purely finance-driven actions will fail. Unless changes permeate the entire structure of City government, the existence of PICA will have done nothing more than forestall for several years the fiscal collapse of City government and its inability to deliver even the most basic services to its citizens.

The PICA Act mandates the content of the Plan, and the Cooperation Agreement further addresses those requirements. Generally, the Plan is to include:

- Projected revenues and expenditures of the principal operating funds of the City for five fiscal years (the current fiscal year and the next four).
- Components to (i) eliminate any projected deficit for the current fiscal year; (ii) restore to special fund accounts money from those accounts used for purposes other than those specifically authorized; (iii) balance the current fiscal

year budget and subsequent budgets in the Plan through sound budgetary practices, including, but not limited to, reductions in expenditures, improvements in productivity, increases in revenues, or a combination of such steps; (iv) provide procedures to avoid a fiscal emergency condition in the future; and (v) enhance the ability of the City to regain access to the short- and long-term credit markets.

The PICA Act includes standards to be used by the City in its development of the Plan, and the Authority's evaluation of it, requiring all projections of revenues and expenditures to be based upon consistently applied reasonable and appropriate assumptions and methods of estimation. Revenues are to be recognized in the accounting period in which they become both measurable and available. The statute also requires that substantial attention be given in the Plan to cash flow, and projections are to be based upon reasonable and appropriate assumptions as to sources and uses of cash, including factors aimed at obtaining a complete picture of cash demands.

In an effort to avoid the historically severe problems resulting from over-estimating gross revenues, the PICA Act provides that estimates in the Plan of revenues are to be based upon a variety of factors, depending on the sources:

City sources - current or proposed tax rates, historical collection patterns, and generally recognized econometric models;

State sources - historical patterns, currently available levels, or on levels proposed in a budget by the Governor;

Federal sources - historical patterns, currently available levels, or levels proposed in a budget by the President or in a Congressional budget resolution; and

Non-tax sources - current or proposed rates, charges or fees, historical patterns and generally recognized econometric models.

A further protection built into the Plan process is the requirement that any deviations from such standards for estimation of revenues and appropriations proposed to be used by the City be specifically disclosed to the Authority and approved by four of the five appointed members. The PICA board generally has required that conservative criteria be used.

In addition to the attention required to be paid in the Plan to operating costs and revenues, the Plan is to include a schedule of projected City capital commitments (and proposed sources of funding), debt service projections for existing and anticipated City obligations, a schedule of payments for legally-mandated services projected to be due during the term of the Plan and a schedule showing the number of authorized employee positions (filled and unfilled) - inclusive of estimates of wage and benefit levels for various groups of

employees.

As a final protection, the Authority requires an opinion or certification of the City Controller, prepared in accordance with generally accepted auditing standards, with respect to the reasonableness of the assumptions and estimates in the Plan.

First Year Milestones

There have been several major events in PICA's first year of operations:

June 5, 1991	Act 6 of 1991 approved by Governor Robert P. Casey.
June 25, 1991	Initial organizational meeting of the Authority.
January 3, 1992	Approval by Council and Mayor W. Wilson Goode of the Cooperation Agreement ordinance.
January 8, 1992	Execution of the Cooperation Agreement by PICA and Mayor Edward G. Rendell.
February 20, 1992	Submission by Mayor Rendell of proposed Plan to City Council. Public employee labor unions file legal action with the Pennsylvania Supreme Court alleging unconstitutionality of PICA Act.
April 7, 1992	Arguments before the Supreme Court concerning PICA challenge.
March 5, 1992	Approval of Plan by City Council and submission to PICA.
March 6, 1992	Submission by Mayor Rendell of proposed fiscal year 1993 operating and capital budgets to City Council.
March 29, 1992	Approval of FY1993 budget by City Council.
April 6, 1992	PICA approval of Initial Plan.
April 13, 1992	Supreme Court declares the PICA Act to be constitutional.
April 21, 1992	Submission to PICA by Mayor Rendell of amendments to the Initial Plan.
April 27, 1992	Public employee labor unions file for reconsideration of Supreme Court decision.

- May 18, 1992** Submission to PICA by Mayor Rendell of further amendments to the Plan.
- PICA approval of amended Plan.
- Authorization by PICA Board of distribution of a preliminary Official Statement with respect to first issue of PICA bonds.
- May 29, 1992** Supreme Court issues written opinion supporting the constitutionality of the PICA Act, and denying plaintiffs' request for reconsideration.
- June 1, 1992** PICA bonds offered.
- June 4, 1992** PICA approves execution of bond purchase contract for issuance and sale of \$474,555,000 in Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1992.
- June 16, 1992** Bond settlement.

PICA's first year was a time of orientation to the City's problems and establishing a process to address them. While there were difficulties and delays, the achievement of the goals set out in the statute laid the foundation for the next, more difficult, phase of its task: the oversight of Plan implementation and compliance. In many respects, the attention generated by the negotiation of the Cooperation Agreement, development and approval of the Plan and issuance of the PICA Bonds obscured the progress made in the latter half of the 1992 fiscal year in PICA's efforts to press the City to establish systems to provide elected and senior appointed officials, as well as other City managers, with the kind of information necessary to administer the affairs of a major American city in the last decade of the 20th century. Over time, continued achievement of that goal will be Philadelphia's greatest challenge.

Goals for PICA: Fiscal Year 1993

The prospects for the City of Philadelphia to return to the financial markets on its own will depend in large degree upon its success in developing new and credible systems to control its fiscal affairs. Adherence to the Plan, and the method the City uses to deal with related problems, will be the basis on which it will be judged, as well as by the substance and quality of budget and management reports and other financial data produced on a regular basis by the City.

The story of Philadelphia's budgets and finances in recent years is one of ambitious beginnings, but also of delay and frequent failure in execution. Investors, after years of hard experience, await evidence that such will not be the case with the relationship between PICA and the City, or efforts to achieve the goals set out in the Plan. Mayor Rendell has indicated that his efforts are aimed towards making fundamental changes in the manner in which the City conducts its affairs. He has articulated a desire to achieve nothing less than a "reinvention" of Philadelphia's government. The Authority's role is to assist in that process, and to critique the means by which it occurs. To that end, there are several areas to which the Authority expects to devote particular attention during fiscal 1993, and build upon a successful first year.

Addition of fiscal year 1997 to the Plan. The Plan as approved by PICA in May of 1992 covers the fiscal year ended June 30, 1992, as well as fiscal years 1993-96. As of July 1, 1992, the Plan covered only four fiscal years. The PICA Act and the Cooperation Agreement contemplate the continuous existence of a Plan encompassing the current fiscal year and the four fiscal years thereafter, and anticipate that a new year should be added to the then-existing Plan not later than 100 days prior to the end of each fiscal year. While PICA's approval of the Initial Plan in May of 1992 made adherence to the deadline inappropriate for FY92-FY93, PICA now expects that FY97 will be added by a submission by the City to PICA for its review not later than fifteen days after the latter to occur of the completion of police and fire department labor arbitrations, both of which the City expects to be completed during December of 1992.

Addition of fiscal year 1998 to the Plan. The PICA Act and the Cooperation Agreement, as noted above, require submission of revisions to the Plan to PICA for its consideration to add a new fiscal year (FY98) to the Plan by March 22, 1993, which is 100 days prior to the end of the 1993 fiscal year.

Corporate Entity information. The Agreement anticipates that detailed information on The School District of Philadelphia and other "Corporate Entities" (defined in the Cooperation Agreement as "an authority or other corporate entity, now existing or hereafter created, of which one or more of the members of its governing board are appointed by the Mayor and which performs governmental functions for the City...") generally will be made available to PICA (the City is to provide "...all reports, documents, budgetary and financial planning data and any other information prepared by or on behalf of..." such entities). The

Authority has recognized the complexity of the task of bringing the Corporate Entity reporting system into being contemporaneously with the development and implementation of the Plan in its early stages, and generally did not strongly assert its rights to receive information with respect to such entities during the past fiscal year. For FY93, however, PICA will become more involved in the evaluation of Corporate Entity information and its relationship to the Plan. According to the Cooperation Agreement, the following agencies are Corporate Entities:

Community College of Philadelphia
Penn's Landing Corporation
Philadelphia Housing Development Corporation
Philadelphia Municipal Authority
Philadelphia Parking Authority
Redevelopment Authority of the City of Philadelphia
Philadelphia Industrial Development Corporation
Philadelphia Authority for Industrial Development
Hospitals and Higher Education Facilities Authority
Philadelphia Housing Authority
Pennsylvania Convention Center Authority
Philadelphia Facilities Management Corporation
Southeastern Pennsylvania Transportation Authority
Philadelphia Commercial Development Corporation

Other agencies may be added to the extent they fit the definition noted above, and the City will be pressed by PICA during FY93 to do more than to request data in a general sense. The information should be analyzed and the City should evidence a fuller understanding of the relationship between those entities and the City's finances, and PICA will devote a larger portion of its efforts and resources towards exploring those issues as well. While performance by the City in this area was poor during the 1992 fiscal year, initial indications support the expectation of improved compliance during FY93.

Extraordinary Contracts. The Cooperation Agreement contemplates several actions with respect to Extraordinary Contracts, which exclude labor contracts, but which are defined under the Cooperation Agreement as follows:

...any contract or agreement to which the City is a party or under or on account of which the City may be or become obligated, directly or indirectly, pursuant to which the City will (or upon the occurrence of certain events or circumstances or the satisfaction of certain conditions may) incur a financial obligation or confer a financial benefit upon another, in either case in excess of one million (\$1,000,000) dollars during any fiscal year of the City during the term of such contract or agreement or in excess of five million (\$5,000,000) dollars in the aggregate during the term of such contract or agreement.

The goal of the Extraordinary Contracts provision of the Cooperation Agreement is to encourage the City to assess the impact on the Plan (both short- and long-term) of agreements it intends to enter into, particularly in the area of "open-ended" agreements for services. While the City's compliance with this requirement during FY92 was far short of what the Cooperation Agreement requires, performance to date during FY93 has provided some evidence of improvement.

City Capital Projects - During the period of the City's cash crisis during the FY1990-92 period, Philadelphia used inter-fund borrowing from its consolidated cash account as a line of credit to meet its operating requirements. While such action forestalled default and the total collapse of City finances, the price paid by its infrastructure was huge. The use of interfund borrowing is both permissible and logical as an economical alternative to the exposure of short-term cash flow borrowing, but Philadelphia's use of the device "cannibalized" the City's future to meet its immediate cash needs. PICA's bond issue assisted the City capital program in two ways: it immediately restored the capital portion of the consolidated cash account to solvency and provided \$120 million in new capital funds for the City to deal with emergency projects and projects required to accomplish the goals of the Plan. In the case of future projects, the funds are held by the Trustee for the PICA Bonds to forestall the future use of capital funds for operating purposes.

During the 1993 fiscal year PICA anticipates working with the City to develop a system which monitors the use of PICA bond funds for approved projects, but the Authority also will insist that the City develop its own system to structure and monitor the progress of its capital program. As well, the inability of the City to use PICA-provided capital funds to staunch temporary shortfalls in operating cash should encourage those who work with the capital program to have a new sense of commitment to the process - in the knowledge that the progress and completion of their work is more likely.

Initiative Monitoring - As noted above, the Plan is more than a fiscal tool. Given the inclusion of many management, productivity and revenue-raising initiatives in the Plan, the implementation of those initiatives has both a financial and management impact. Most of the focus since the beginning of the Rendell Administration, and in discussions of the Plan, understandably has been on the negotiation of labor contracts, and the substantial amount of money which a restructuring of the labor-management relationship and related health and welfare systems would produce. The Plan, however, also anticipates in excess of \$658 million in *non-personnel* initiatives over its term. The effective implementation of those initiatives in many ways is more difficult than accomplishing the personnel initiatives. The number of City departments and agencies involved, and the complexity of the tasks, require constant supervision, and PICA has encouraged the Administration to put into place systems which will enable it to gauge progress and make corrections to the degree necessary to accomplish the Plan's goals on a timely basis. PICA has seen progress, but remains concerned about the City's ability to come to terms with the task effectively and within the limited time available to it.

The size of the challenge should not be underestimated, and PICA Staff, in its report on the Plan, said:

While the cooperation between the executive and legislative branches of City government shown in their prompt approval of the Plan and the FY 1993 budget is both unusual and welcome, it is a matter of concern to PICA staff that the degree of substantive public discourse that our political system requires to achieve consensus, and to give all sectors of the community a stake in the results, may have been both too brief and not productive of the broad agreement required for the Plan to succeed.

The idea that the Plan can be fundamentally changed (if needed) when the results of the labor negotiations are known later this year, also is one about which PICA staff has serious reservations. The standards to be applied if and when such a revision occurs will be, if anything, more rigorous than has been the case to date (in light of the additional time the Administration will have had to access information about the workings of Philadelphia's government and to have begun the process of implementation).

It is imperative that Philadelphians and those who live and work nearby recognize that they all have a very real interest in the success or failure of the Plan. That is particularly true of those in the suburbs who believe that they somehow can hide from the problems of the City.

PICA staff is very concerned that the City government has not yet fully recognized that implementation of the initiatives beyond those which may be achieved through collective bargaining requires the active support and cooperation of those who work in the operating departments. While we have no doubt of the commitment of City Council, the Controller and the Mayor to the Plan, the greatest risk to date may be found in the absence of a comprehensive management plan or structure to support an implementation strategy.

The Authority continues to have those concerns.

Reporting -- The reporting system established in the Cooperation Agreement and in the PICA Act, which anticipates a regular flow of data to PICA, is the fundamental device to be used for the Authority's assessment of the progress of City efforts to fiscally rehabilitate itself. While PICA is very much concerned about the content and quality of the information which such an effort will produce, it is of equal importance that the City concurrently establish a system to permit its own ongoing evaluation of financial information, apart from what is required by PICA, for the purposes of re-asserting control over the City's fiscal systems, and giving City managers the tools they require to manage effectively. The reporting system mandated by the PICA Act is divided into several groups, which are

described below, and in Table 1:

Quarterly Plan reports. The Authority receives reports from the City on a quarterly basis (45 days after the end of each fiscal quarter) concerning the status of compliance with the Plan and associated achievement of initiatives. The quarterly reporting deadlines for FY93 are November 16, 1992, February 16, 1993, May 17, 1993 and August 16, 1993. The Cooperation Agreement also requires that the City provide reports to PICA concerning Supplemental Funds (defined in the Cooperation Agreement as the Water and Aviation Funds) on a quarterly basis. PICA has requested that the information on those funds be submitted contemporaneously with the required Plan quarterly reports. PICA has received from the City its report for the fourth quarter of FY92, and is working with the City to improve its reporting systems and presentation.

Grants Revenue Fund contingency account report. The Cooperation Agreement provides that a report on the Grants Revenue Fund Contingency Account be prepared and submitted, by department, not later than 20 days after the close of each fiscal quarter, which for FY93 are October 20, 1992, January 20, 1993, April 20, 1993 and July 20, 1993. This report details the receipt and use of Federal and Commonwealth Funds by the City, as well as the eligibility for fund withholding by the Commonwealth at PICA's direction in the event the City cannot balance the Plan after an extended period of intensive reporting and PICA review of proposed corrective efforts.

Prospective debt service requirements report. The Cooperation Agreement requires submission of a report detailing prospective debt service payments by the City, as well as lease payments, 60 days prior to the beginning of a fiscal quarter. The dates for submission of future such reports for FY93 are July 31, 1992, November 2, 1992, January 29, 1993 and April 30, 1993.

Report as to Commonwealth funds which may be withheld. The PICA Act provides the Authority with an enforcement mechanism in the event a variance occurs in the Plan and the City does not provide the Authority with an acceptable proposal to deal with the variance and bring the Plan back into balance. If the Authority by vote of four of its five appointed members determines to declare the City in violation of the Plan, it thereby causes certain Commonwealth funds to be withheld, and the escrow of that portion of the PICA Tax (1.5% of the wages of resident Philadelphians) not otherwise allocable to debt service on the PICA Bonds.

Table 1.

Description of FY93 Reporting Requirements

Due Date	Description
October 20, 1992	Receipt of 1st Quarter FY93 Grants Revenue Fund Contingency Account report
November 2, 1992	Receipt of 3rd Quarter FY93 Debt Service Requirements report
November 16, 1992	Receipt of 1st Quarter FY93 Plan report, Supplemental Funds report and report concerning State funds which may be withheld
January 20, 1993	Receipt of 2nd Quarter FY93 Grants Revenue Fund Contingency Account report
January 29, 1993	Receipt of 4th Quarter FY93 Debt Service Requirements report
February 16, 1993	Receipt of 2nd Quarter FY93 Plan report, Supplemental Funds report and report concerning State funds which may be withheld
March 22, 1993	Pre-budget revision to Plan and addition of FY98
April 20, 1993	Receipt of 3rd Quarter FY93 Grants Revenue Fund Contingency Account report
April 30, 1993	Receipt of 1st Quarter FY94 Debt Service Requirements Report
May 17, 1993	Receipt of 3rd Quarter FY93 Plan report, Supplemental Funds report and report concerning State funds which may be withheld
July 20, 1993	Receipt of 4th Quarter FY93 Grants Revenue Fund Contingency Account report
August 16, 1993	Receipt of 4th Quarter FY93 Plan report, Supplemental Funds report and report concerning State funds which may be withheld

Management Discussion of Financial Operations

As an organization in its first year of operation, and with the peculiarities of its creation and role, the task of discussing PICA's financial operations is somewhat more challenging than otherwise would be the case.

At the time of the Authority's creation and in the preparation of its initial operating budget it was not clear how soon the City would present an acceptable Plan, nor how quickly agreement could be reached on the form and substance of the Cooperation Agreement - both of which were necessary pre-conditions to issuance of PICA's bonds. Further, the PICA Act anticipated both the loan by the Commonwealth of \$150,000 to PICA to be repaid by June 30, 1992, and the availability of \$500,000 from PICA's initial bond issue for organizational expenses.

The PICA Act anticipated that the Authority would have several sources of income to support its operations beyond the initial allocations noted above. The statute specifically provided that the Authority would be able to draw earnings from the various funds and accounts created pursuant to bond issuance, and also directly from the proceeds of PICA taxes to the extent such investment income was insufficient. During the major portion of FY92, PICA's operations were funded directly by PICA tax revenues.

The issuance of bonds in the final two weeks of the 1992 fiscal year, which was not anticipated at the time of the enactment of the Authority's budgets for either FY92 or FY93, produced an excess of revenues over expenditures for FY92. PICA's budget was helped significantly by the pro bono provision, during its first six months of operation of office space - as well as local telephone service and various other support services - by the Authority's counsel, Reed Smith Shaw & McClay; and of meeting space and other services by the Philadelphia Regional Port Authority. Such arrangements had a positive impact on the cash flow of the Authority, and had ancillary benefits in the area of personnel costs.

PICA's staffing during FY92 proceeded at a somewhat slower pace than had been anticipated in the original budget, and the cost of various consulting services was lower than expected. The Authority's legal fees were greater than had been projected primarily as a result of delay in bond issuance, the unanticipated need for substantial legal research, litigation and bond issue services. Furniture, fixture and equipment charges were above budgeted amounts, although the majority of the Authority's furnishings were acquired through the City's prison industries program. Amounts saved by not acquiring computer consulting services were re-directed towards acquisition of an enhanced computer network system.

The philosophy underlying the Authority's operations has been that the agency should maintain a personnel and expenditure level sufficient it to permit it to respond to the demands placed upon it, but not so large as to present an opportunity either for the City to use PICA's resources to bypass the re-creation of its own management systems or to establish a

permanent PICA structure that would develop its own reason for continued existence. In the end, it is the task of PICA to do its job and then disappear.

**FINANCIAL STATEMENTS
AND
REPORT OF AUDITORS
APPENDIX A**

**PENNSYLVANIA INTERGOVERNMENTAL
COOPERATION AUTHORITY**

**General Purpose Financial Statements and
Supplemental Statements and Schedules for the
Period from June 5, 1991 (Date of Inception) to
June 30, 1992 and Independent Auditors' Report**

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of the Authority:

We have audited the accompanying general purpose financial statements of the Pennsylvania Intergovernmental Cooperation Authority (the "Authority") from June 5, 1991 (date of inception) to June 30, 1992 and for the period then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position and results of operations of the various fund types and account groups of the Pennsylvania Intergovernmental Cooperation Authority at June 30, 1992 and for the period then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental statements and schedules listed in the foregoing table of contents, which are also the responsibility of the Authority's management, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such supplemental statements and schedules have been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

Deloitte + Touche

September 3, 1992

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1992

ASSETS	Notes	Governmental Fund Types			Fiduciary Fund Type Expendable Trust	Account Groups		Total (Memorandum Only)
		General	Special Revenue	Debt Service		General Fixed Assets	Long-Term Debt	
CURRENT ASSETS:								
Cash and short-term investments	2	\$ 723,646		\$ 68,838,129	\$ 223,420,671			\$ 292,982,446
Accounts receivable - PICA taxes	1		\$ 9,513,891					9,513,891
Total current assets		723,646	9,513,891	68,838,129	223,420,671			302,496,337
PROPERTY, PLANT AND EQUIPMENT - Office furniture and equipment	1					\$ 110,015		110,015
OTHER ASSETS - Prepaid rent and other		12,635						12,635
AMOUNT AVAILABLE IN DEBT SERVICE FUND FOR RETIREMENT OF LONG-TERM DEBT							\$ 68,838,129	68,838,129
AMOUNT TO BE PROVIDED FOR RETIREMENT OF LONG-TERM DEBT							405,716,871	405,716,871
TOTAL ASSETS		\$ 736,281	\$ 9,513,891	\$ 68,838,129	\$ 223,420,671	\$ 110,015	\$ 474,555,000	\$ 777,173,987
LIABILITIES AND FUND EQUITY								
CURRENT LIABILITIES:								
Accounts payable		\$ 57,958			\$ 264,930			\$ 322,888
Accrued payroll and taxes		56,692						56,692
Due to the City	1		\$ 9,513,891					9,513,891
Total current liabilities		114,650	9,513,891		264,930			9,893,471
BONDS PAYABLE	3						\$ 474,555,000	474,555,000
FUND EQUITY:								
Fund balances:								
Unreserved		621,631		\$ 68,838,129				621,631
Reserved for debt service								68,838,129
Reserved for the benefit of the City	3				223,155,741			223,155,741
Investment in general fixed assets	1					\$ 110,015		110,015
Total fund equity		621,631		68,838,129	223,155,741	110,015		292,725,516
TOTAL LIABILITIES AND FUND EQUITY		\$ 736,281	\$ 9,513,891	\$ 68,838,129	\$ 223,420,671	\$ 110,015	\$ 474,555,000	\$ 777,173,987

See notes to financial statements.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL FUND TYPES
FOR THE PERIOD FROM JUNE 5, 1991 (DATE OF INCEPTION) TO JUNE 30, 1992

	Note	Governmental Fund Types			Fiduciary Fund Type Expendable Trust	Total (Memorandum Only)
		General	Special Revenue	Debt Service		
REVENUES:						
PICA taxes	1	\$ 15,136	\$ 169,023,569	\$ 63,455	\$ 88,441	\$ 169,023,569
Interest earned on investments						167,032
Total revenues		15,136	169,023,569	63,455	88,441	169,190,601
EXPENDITURES:						
Grants to the City			168,339,447		173,500,000	341,839,447
Bond issuance costs					2,433,064	2,433,064
Administration:						
Operating expenses		617,612				617,612
Capital expenditures		110,015				110,015
Total expenditures		727,627	168,339,447		175,933,064	345,000,138
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		(712,491)	684,122	63,455	(175,844,623)	(175,809,537)
OTHER FINANCING SOURCES (USES):						
Proceeds from bond issuance		1,334,122	(684,122)	68,774,674	468,425,038	468,425,038
Operating transfers in (out)		1,334,122	(684,122)	68,774,674	399,000,364	468,425,038
Total other financing sources (uses)						
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		621,631		68,838,129	223,155,741	292,615,501
FUND BALANCE, JUNE 30, 1992		\$ 621,631	\$ 0	\$ 68,838,129	\$ 223,155,741	\$ 292,615,501

See notes to financial statements.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD FROM JUNE 5, 1991 (DATE OF INCEPTION) TO JUNE 30, 1992

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Structure - The Pennsylvania Intergovernmental Cooperation Authority (the "Authority"), a body corporate and politic, was organized on June 5, 1991 and exists under and by virtue of the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, (P.L. 9, No. 6)(the "Act"). Pursuant to the Act, the Authority was established to provide financial assistance to cities of the first class. The City of Philadelphia (the "City") currently is the only city of the first class in the Commonwealth of Pennsylvania (the "Commonwealth"). Under the Act, the Authority is administered by a governing Board consisting of five voting members and two ex officio non-voting members. The Governor, the President pro tempore of the Senate, the Minority Leader of the Senate, the Speaker of the House of Representatives and the Minority Leader of the House of Representatives each appoints one voting member of the Board.

The Act provides that, upon the Authority's approval of a request of the City to the Authority for financial assistance, the Authority shall have certain financial and oversight functions. First, the Authority shall have the power to issue bonds and grant or lend the proceeds thereof to the City. Second, the Authority also shall have the power, in its oversight capacity, to exercise certain advisory and review powers with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City, and to certify noncompliance by the City with its then-existing five-year financial plan (which certification would require the Secretary of the Budget of the Commonwealth to cause certain payments due to the City from the Commonwealth to be withheld by the Commonwealth).

Accounting Structure - The Authority's general purpose financial statements include all funds and account groups of the Authority. The Authority utilizes fund accounting to facilitate the orderly recording of transactions involved in conducting its financial affairs. Its accounts are organized on the basis of fund types and account groups: each fund type may consist of several discrete funds. Each fund is a separate entity accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balances, revenues and expenditures.

Governmental Fund Types - The General, Special Revenue and Debt Service Funds of the Authority utilize a "modified accrual basis" of accounting. Under this basis, certain revenues (those susceptible to accrual, readily measurable and available as to amount and anticipated as being readily collectible) are recorded on the accrual basis. All other revenues are recognized only when received in cash. Expenditures, with the exception of interest requirements on long-term debt, are accounted for on the accrual basis of accounting.

The General Fund is used to account for the administrative operations of the Authority.

The Special Revenue Fund accounts for the proceeds of the PICA Tax (the tax on the wages and net profits of the City of Philadelphia residents) remitted to the Authority via the Commonwealth. It is utilized to finance the operations of the Authority and to provide grants to the City. It encompasses the Revenue Fund established with the Trustee by the Bond Indenture of Trust (Note 3).

Debt Service Funds account for the accumulation of financial resources for the payment of principal and interest on the Authority's long-term debt. The Combined Debt Service Fund includes the following individual funds established by the Bond Indenture of Trust:

- Debt Service Fund
- Debt Service Reserve Fund
- Bond Redemption Fund
- Rebate Fund

Fiduciary Fund Type - Expendable Trust - These account for assets held by the Authority for expenditure for the benefit of the City. The principal and income of these funds must be expended for their designated purpose. These funds also utilize the modified accrual basis of accounting.

The Combined Expendable Trust Fund includes the following individual funds established by the Bond Indenture of Trust (Note 3):

- Capital Projects Fund
- Deficit Fund
- Settlement Fund

Account Groups - Account groups are used to establish accounting control and accountability for the Authority's general fixed assets and its general long-term liabilities. The general fixed assets are not available for expenditure and the general long-term liabilities do not require use of financial resources during the current accounting period; therefore, neither is accounted for in the governmental or fiduciary fund types, but in self-balancing account groups, as described below:

- General Fixed Assets Account Group - General fixed assets of \$110,015 and their offsetting equity account, investment in general fixed assets, include the fixed assets of the Authority, primarily leasehold improvements, furniture and equipment.
- General Long-term Debt Account Group - Includes the liabilities for the principal amount of debt payable. For financial statement purposes, all moneys reserved for debt service at the close of the year are considered available for debt reduction and the balance of these liabilities is offset by a deferred charge to future revenues (the PICA Tax). This procedure recognizes the legal requirement that sufficient revenue be raised in future years to cover debt service costs.

Total Columns on Combined Statements - Total columns on the combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

PICA Tax - The "PICA Tax" was enacted by an ordinance adopted by City Council and approved by the Mayor of the City of Philadelphia on June 12, 1991 (Bill No. 1437). The tax levy is one and one-half percent (1.5%) on the wages and net profits of City residents. The PICA Tax is collected by the Department of Revenue of the Commonwealth, utilizing the City Department of Revenue as its agent, and remitted to the Treasurer of the Commonwealth for disbursement to the Authority's Trustee. The PICA Tax is recorded as revenue when available and measurable.

Compensated Absences - The Authority records all accrued employee benefits, including accumulated vacation, as a liability in the period benefits are earned. Accrued vacation at June 30, 1992 totaled \$10,846.

2. CASH AND SHORT-TERM INVESTMENTS

Authority funds may be deposited in any bank that is insured by federal deposit insurance. To the extent that such deposits exceed federal insurance, the depositories must deposit (with their trust department or other custodians) obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth. Under Pennsylvania Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit with their institution.

Investments in the Special Revenue Fund, the Debt Service Funds, and the Expendable Trust Funds must be invested in accordance with the Trust Indenture (see Note 3). The Trust Indenture restricts investments to the following types of securities:

- (a) Obligations of the City of Philadelphia;
- (b) government obligations;
- (c) federal funds, unsecured certificates of deposits, time deposits or bankers acceptances of any domestic bank having a combined capital and surplus of not less than \$50,000,000;
- (d) federally insured deposits of any bank or savings and loan association which has a combined capital, surplus and undivided profits or not less than \$3,000,000;
- (e) (i) direct obligations of, or (ii) obligations, the principal of and interest on which are unconditionally guaranteed by any state of the United States of America, the District of Columbia or the Commonwealth of Puerto Rico, or any political subdivision or agency thereof, other than the City, whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and Standard & Poors (S&P);
- (f) commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, "P-1" by Moody's and "A-1" or better by S&P;
- (g) repurchase agreements collateralized by direct obligations of, or obligations the payment of principal and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America; and direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgaged-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgaged-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; and guaranteed Title XI financing of the U.S. Maritime Administration.

- (h) money market mutual fund shares issued by a fund having assets not less than \$100,000,000 (including any such fund from which the Trustee or any of its affiliates may receive compensation) which invests in securities of the types specified in clauses (b) or (f) above and is rated "AAAm" or "AAAm-G" by S&P;
- (i) guaranteed investment contracts (GICs) with a bank, insurance company or other financial institution that is rated in one of the three highest rating categories by Moody's and S&P and which GICs are either insured by a municipal bond insurance company or fully collateralized at all times with securities included in (b) above.

Investments in the Debt Service Reserve Fund may only be invested in the investments included in (b) through (i) above with a maturity of 5 years or less or Guaranteed Investment Contracts that can be withdrawn without penalty.

At June 30, 1992, the carrying amount of the Authority's deposits (including certificates of deposit and time deposit open accounts) with financial institutions was \$726,773. The bank balance of \$1,022,088 was insured or collateralized as follows:

Insured	\$ 103,127
Uninsured and uncollateralized, but covered under the provisions of Act 72, as amended	<u>918,961</u>
Total deposits	<u><u>\$ 1,022,088</u></u>

The following is a schedule of investments of the Authority by type (other than certificates of deposit and time deposit open accounts) showing the carrying value (cost) and categorization as to credit risk at June 30, 1992:

	Total	Carrying Value		
		Credit Risk Category		
		(1)	(2)	(3)
U.S. Treasury bills	\$170,729,975			\$170,729,975
U.S. Treasury notes	13,201,017			13,201,017
Repurchase agreements	<u>108,324,681</u>			<u>108,324,681</u>
Total investments	<u><u>\$292,255,673</u></u>			<u><u>\$292,255,673</u></u>

The three credit risk categories are defined as follows:

Category

- (1) Insured, registered or securities held by the entity or its agent (bank trust department) in the entity's name (name of the Authority)
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

During the period ended June 30, 1992, deposits and investments of the Authority were similar to those on hand at June 30, 1992 with respect to credit risk. Because of the nature of the investments and the date they were purchased the market value of the investments approximates their carrying value at June 30, 1992.

3. SPECIAL TAX REVENUE BONDS, SERIES OF 1992

The Authority issued \$474,555,000 of Special Tax Revenue Bonds in June of 1992 (the "1992 Bonds") to assist the City in funding its deficit and for other purposes.

In conjunction with the bond offering the Authority entered into an Indenture of Trust dated June 1, 1992 and amended June 22, 1992 (the "Trust Indenture") with CoreStates Bank, N.A., as Trustee for the Bondholders. The Trustee's responsibilities include ensuring that the proceeds of the PICA Tax are used to fund the debt service payments (Bond principal and interest) required under the Indenture.

The proceeds from the sale of the 1992 Bonds were to be used to (i) make grants to the City to fund the Fiscal Year 1991 General Fund cumulative deficit and the projected Fiscal Year 1992 and 1993 General Fund deficits, (ii) make grants to the City to pay the costs of certain emergency capital projects to be undertaken by the City and other capital projects to increase productivity in the operation of City government, (iii) make the required deposit to the Debt Service Reserve Fund (iv) capitalize interest on a portion of the 1992 Bonds through June 15, 1993, (v) repay amounts previously advanced to the Authority by the Commonwealth to pay initial operating expenses of the Authority, (vi) fund a portion of the Authority's first fiscal year operating budget and, (vii) pay the costs of issuing the 1992 Bonds.

The following is an analysis of the bond proceeds and their disposition as of June 30, 1992:

Net proceeds from issuance of 1992 Bonds:

Principal amount of 1992 Bonds	\$474,555,000
Original issue discount	(2,671,460)
Premium	3,465,244
Underwriters' discount	(4,346,924)
Accrued interest from June 1, 1992	1,239,796
Insurance premiums	<u>(3,816,618)</u>

Net proceeds from issuance of 1992 Bonds	<u>\$468,425,038</u>
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Disposition of net proceeds from issuance of 1992 bonds:

Deposit to Debt Service Fund for:	
Accrued interest	\$ 1,239,796
Capitalized interest	20,000,000
Deposit to Debt Service Reserve Fund	47,534,878
Deposit to Capital Projects Fund	120,000,000
Deposit to Deficit Fund	102,700,000
Grants to the City:	
1991 accumulated deficit reduction	153,500,000
Productivity Fund creation	20,000,000
Transfer to the Authority's General Fund	650,000
Issuance costs:	
Expended	2,433,064
Reserved (held in Settlement Fund)	<u>367,300</u>

Total	<u>\$468,425,038</u>
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The 1992 Bonds are limited obligations of the Authority and the principal, redemption premium, if any, and interest thereon, are payable solely from a portion of the PICA Tax (see Note 1). The details of bonds outstanding at June 30, 1992 are as follows:

<u>Interest Rate</u>	<u>Maturing June 15</u>	<u>Amount</u>
9.000%	1995	\$ 33,725,000
5.200	1996	36,765,000
5.400	1997	38,670,000
5.600	1998	40,765,000
5.750	1999	43,045,000
6.000	2000	45,520,000
6.000	2002	99,395,000
6.625	2006	15,140,000
6.800	2012	31,535,000
6.800	2022	89,995,000
Total		<u>\$474,555,000</u>

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements under the 1992 Bonds.

<u>Year Ending (June 15)</u>	<u>Principal or Sinking Fund Requirements</u>	<u>Interest</u>	<u>Total Debt Service Requirements</u>
1993		\$ 30,912,245	\$ 30,912,245
1994		29,755,103	29,755,103
1995	\$ 33,725,000	29,755,103	63,480,103
1996	36,765,000	26,719,853	63,484,853
1997	38,670,000	24,808,073	63,478,073
1998	40,765,000	22,719,893	63,484,893
1999	43,045,000	20,437,053	63,482,053
2000	45,520,000	17,961,965	63,481,965
2001	48,250,000	15,230,765	63,480,765
2002	51,145,000	12,335,765	63,480,765
2003	3,430,000	9,267,065	12,697,065
2004	3,655,000	9,039,828	12,694,828
2005	3,900,000	8,797,684	12,697,684
2006	4,155,000	8,539,309	12,694,309
2007	4,430,000	8,264,040	12,694,040
2008	4,730,000	7,962,800	12,692,800
2009	5,055,000	7,641,160	12,696,160
2010	5,400,000	7,297,420	12,697,420
2011	5,765,000	6,930,220	12,695,220
2012	6,155,000	6,538,200	12,693,200
2013	6,575,000	6,119,660	12,694,660
2014	7,025,000	5,672,560	12,697,560
2015	7,500,000	5,194,860	12,694,860
2016	8,010,000	4,684,860	12,694,860
2017	8,555,000	4,140,180	12,695,180
2018	9,135,000	3,558,440	12,693,440
2019	9,760,000	2,937,260	12,697,260
2020	10,420,000	2,273,580	12,693,580
2021	11,130,000	1,565,020	12,695,020
2022	11,885,000	808,180	12,693,180
Totals	<u>\$474,555,000</u>	<u>\$347,868,144</u>	<u>\$822,423,144</u>

To issue additional bonds, the Trust Indenture requires that the Authority's collection of PICA Taxes in any twelve consecutive months during the fifteen-month period immediately preceding the date of issuance of such additional bonds equals at least 175% of the maximum annual debt service requirement on the bond outstanding after the issuance of the additional bonds.

The PICA Taxes collected during the period from July 1, 1991 to June 30, 1992 were 266% of the maximum annual debt service of the currently outstanding bonds (the 1992 Bonds).

4. DEFINED BENEFIT PENSION PLAN

Plan Description - The Authority has made application to cover all full-time employees of the Authority in the State Employees' Retirement System (SERS), which is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Pennsylvania (Commonwealth) to provide pension benefits for employees of state government and certain independent agencies. The System provides retirement, death, and disability benefits. Retirement benefits vest after 10 years of credited service. Employees who retire at age 60, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. Members of the legislature and certain law enforcement officers can retire with full benefits at age 50.

The general annual benefit is 2% of the member's highest three-year annual average salary times years of service. Members of the legislature who were members of the System before March 1, 1974 are entitled to a benefit of 7.5% of average salary for each year of legislative service.

The Authority's 1992 Annual Covered Payroll was \$200,257.

Contributions Required - Covered employees are required to contribute to the System at a rate of 5% of their gross pay, except for employees hired on or after July 22, 1983, who contribute at a rate of 6.25% of their gross pay. Higher contributions are required of legislators and judges (18.75% and 7.5% to 10.0% of gross pay, respectively) who are entitled to increased benefits. The contributions are recorded in an individually identified account which is also credited as mandated by statute.

Participating agency contributions are also mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide the System with assets sufficient to meet the benefits to be paid to System members.

The Authority is required to contribute 11% of covered payroll to the plan. The Authority accrued approximately \$22,000 as of June 30, 1992 for such contributions.

According to the retirement code, all obligations of the System will be assumed by the Commonwealth should the System terminate.

Funding Status and Progress - The amount of the total pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended, on an ongoing basis, to facilitate the assessment of the System's funding status and progress made in accumulating sufficient assets to pay benefits when due and to allow for appropriate comparison of this data among public employee retirement systems. The pension benefit obligation is calculated based on GASB Statement No. 5 and is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation was determined as part of an actuarial valuation at December 31, 1990. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 9.25% and 8.75% per year compounded annually in 1990 and 1989, (b) projected salary increases of 4% per year compounded annually, attributable to inflation in 1990, (c) additional projected salary increases of approximately 2.5% in 1990, attributable to merit/promotion, and (d) no post-retirement benefit increases.

The pension benefit obligation of the System at December 31, 1990 (the latest available pension information) was as follows:

(\$000's omitted)

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$3,554,545
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Current employees:

Accumulated employee contributions	1,855,312
Employer-financed, vested	3,776,219
Employer-financed, nonvested	<u>350,255</u>

Total pension benefit obligation	9,536,331
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Net assets available for benefits, at fair value	<u>9,885,900</u>
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Net assets in excess of pension benefit obligation	<u>\$ 349,569</u>
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A comparative ten-year summary of the pension benefit obligation, which has been calculated in conformance with the requirements of GASB Statement No. 5, is presented in the System's 1991 financial statements. This information is presented for purposes of additional analysis of System progress in accumulating sufficient assets to pay benefits when due.

5. LEASE OBLIGATIONS

The Authority is obligated under various operating leases, including a five-year lease for office space commencing 1992. The following is a schedule of all minimum lease payments:

1993	\$ 78,560
1994	76,261
1995	75,482
1996	73,276
1997	<u>35,820</u>
	<u>\$ 339,399</u>

Rental expense for the period ended June 30, 1992 was \$41,867.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

SUPPLEMENTAL COMBINING BALANCE SHEET - ALL DEBT SERVICE FUNDS
JUNE 30, 1992

<u>ASSETS</u>	<u>Debt Service Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Bond* Redemption Fund</u>	<u>Rebate* Fund</u>	<u>Total</u>
Current assets - Cash and short-term investments	<u>\$21,238,419</u>	<u>\$47,599,710</u>			<u>\$68,838,129</u>
<u>FUND BALANCE</u>					
Fund balance	<u>\$21,238,419</u>	<u>\$47,599,710</u>			<u>\$68,838,129</u>

* Establishment of fund is specified in the Indenture of Trust. There was however, no activity in the fund for the period ended June 30, 1992.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - ALL DEBT SERVICE FUNDS
FOR THE PERIOD FROM JUNE 5, 1991 (DATE OF INCEPTION) TO JUNE 30, 1992

	<u>Debt Service Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Bond* Redemption Fund</u>	<u>Rebate* Fund</u>	<u>Total</u>
Revenues - net interest earned on investments	\$ (1,377)	\$ 64,832			\$ 63,455
Other financing sources: Operating transfers in - Settlement Fund	<u>21,239,796</u>	<u>47,534,878</u>			<u>68,774,674</u>
Total revenues and other financing sources	<u>21,238,419</u>	<u>47,599,710</u>			<u>68,838,129</u>
Fund balance, June 30, 1992	<u>\$21,238,419</u>	<u>\$47,599,710</u>			<u>\$68,838,129</u>

* Establishment of fund is specified in the Indenture of Trust. There was, however, no activity in the fund for the period ended June 30, 1992.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

SUPPLEMENTAL COMBINING BALANCE SHEET - ALL EXPENDABLE TRUST FUNDS
JUNE 30, 1992

<u>ASSETS</u>	<u>Capital Projects Fund</u>	<u>Deficit Fund</u>	<u>Settlement Fund</u>	<u>Total</u>
CURRENT ASSETS - Cash and short-term investments	<u>\$120,081,849</u>	<u>\$102,705,651</u>	<u>\$ 633,171</u>	<u>\$223,420,671</u>
<u>LIABILITIES AND FUND BALANCE</u>				
CURRENT LIABILITIES - Accounts payable			<u>\$ 264,930</u>	<u>\$ 264,930</u>
FUND BALANCE	<u>\$120,081,849</u>	<u>\$102,705,651</u>	<u>368,241</u>	<u>223,155,741</u>
TOTAL	<u>\$120,081,849</u>	<u>\$102,705,651</u>	<u>\$ 633,171</u>	<u>\$223,420,671</u>

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - ALL EXPENDABLE TRUST FUNDS
FOR THE PERIOD FROM JUNE 5, 1991 (DATE OF INCEPTION) TO JUNE 30, 1992

	<u>Capital Projects Fund</u>	<u>Deficit Fund</u>	<u>Settlement Fund</u>	<u>Total</u>
Revenues - interest earned on investments	\$ 81,849	\$ 5,651	\$ 941	\$ 88,441
Expenditures:				
Grants to the City:				
1991 accumulated deficit reduction			153,500,000	153,500,000
Productivity Fund creation			20,000,000	20,000,000
Bond issuance costs			2,433,064	2,433,064
Total expenditures			175,933,064	175,933,064
Excess of revenues over (under) expenditures	81,849	5,651	(175,932,123)	(175,844,623)
Other financing sources (uses):				
Proceeds from bond issuance			468,425,038	468,425,038
Operating transfers in (out)	120,000,000	102,700,000	(292,124,674)	(69,424,674)
Total other financing sources (uses)	120,000,000	102,700,000	176,300,364	399,000,364
Excess of revenues and other financing sources over expenditures and other financing uses	120,081,849	102,705,651	368,241	223,155,741
Fund balance, June 30, 1992	<u>\$120,081,849</u>	<u>\$ 102,705,651</u>	<u>\$ 368,241</u>	<u>\$223,155,741</u>

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

GENERAL FUND

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
FROM JUNE 5, 1991 (DATE OF INCEPTION) TO JUNE 30, 1992

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues - Interest earnings	\$ 4,738	\$ 15,136	\$ 10,398
Expenditures:			
Salaries and benefits	342,032	262,835	(79,197)
Travel	2,750	4,512	1,762
Insurance	20,000		(20,000)
Office supplies	4,200	28,455	24,255
Subscriptions	2,000	2,300	300
Telephone	5,100	8,773	3,673
Rent	56,250	38,407	(17,843)
Accounting consulting	25,000		(25,000)
Audit fees	32,500	30,000	(2,500)
Legal fees	50,000	224,546	174,546
Computer consulting	30,000		(30,000)
Computer time	3,227		(3,227)
Research reserve	100,000		(100,000)
Postage and express charges	1,833	3,750	1,917
General and administrative	917	8,492	7,575
Conference and dues	2,818	1,373	(1,445)
Inter-agency services	25,000		(25,000)
Miscellaneous and trustee	16,000	4,169	(11,831)
Furniture, fixtures and equipment	25,000	110,015	85,015
Total	<u>744,627</u>	<u>727,627</u>	<u>(17,000)</u>
Excess of expenditures over revenues	<u>(739,889)</u>	<u>(712,491)</u>	<u>27,398</u>
Other financing sources:			
Transfers in:			
Bond issue funds provision	650,000	650,000	
PICA tax draw for operations	114,889	684,122	569,233
Total other financing sources	<u>764,889</u>	<u>1,334,122</u>	<u>569,233</u>
Excess of revenues and other financing sources over expenditures	<u>25,000</u>	<u>621,631</u>	<u>596,631</u>
Fund balance, June 30, 1992	<u>\$ 25,000</u>	<u>\$ 621,631</u>	<u>\$596,631</u>

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

SUPPLEMENTAL SCHEDULE OF PICA TAX REVENUES
FOR THE PERIOD FROM JUNE 5, 1991 (DATE OF INCEPTION) TO JUNE 30, 1992

PICA taxes	<u>\$169,023,569</u>
Transfers to the General Fund for operating budget	\$ 684,122
Grants to the City	<u>168,339,447</u>
Total uses for PICA tax revenues	<u>\$169,023,569</u>

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

GENERAL FUND

SUPPLEMENTAL STATEMENT OF CASH ACTIVITY
FOR THE PERIOD FROM JUNE 5, 1991 (DATE OF INCEPTION) TO JUNE 30, 1992

Cash receipts:	
Revenues collected	\$ 15,136
Other financing sources	1,334,122
Advances for operations from:	
Commonwealth of Pennsylvania	150,000
City of Philadelphia	<u>500,000</u>
Total cash receipts	<u>1,999,258</u>
Cash disbursements:	
Expenditures paid	612,977
Prepayment of rent and other expenses	12,635
Repayment of advancements from:	
Commonwealth of Pennsylvania	150,000
City of Philadelphia	<u>500,000</u>
Total cash disbursements	<u>1,275,612</u>
Excess of cash receipts over cash disbursements	<u>723,646</u>
Cash and short-term investments at June 30, 1992	<u><u>\$ 723,646</u></u>