Pennsylvania Intergovernmental Cooperation Authority

Annual Report
for
Fiscal Year 1996

October 15, 1996

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
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Authority Counsel
Reed Smith Shaw & McClay

Independent Auditors
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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 electorial 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.

Table of Contents

	Page
Transmittal Letter	iv
PICA Annual Report Requirements	v
Overview - PICA and its Role	1
The Work of PICA - Fiscal Year 1996	7
Goals for PICA - Fiscal Year 1997	10
Future City Reporting to PICA	12
Management Discussion of Financial Operations	14

Appendix A: Financial Statements and Report of Independent Auditors

Pennsylvania Intergovernmental Cooperation Authority

14th Floor - 1429 Walnut Street, Philadelphia, PA 19102
Telephone 215-561-9160 Fax 215-563-2570

October 15, 1996

To: The Governor and the General Assembly of the Commonwealth of Pennsylvania
The Chairperson and the Minority Chairperson of the Appropriations Committee of the Pennsylvania Senate
The Chairperson and the Minority Chairperson of the Appropriations Committee of the Pennsylvania House of Representatives
The Mayor, the City Council and the Controller of the City of Philadelphia
Other Parties Concerned with the Restoration of Financial Stability of and Achieving Balanced Budgets for the City of Philadelphia

We are pleased to provide herewith the Annual Report of the Pennsylvania Intergovernmental Cooperation Authority ("PICA") for the fiscal year ended June 30, 1996 ("FY96"), PICA's fifth year of operations.

PICA's role in the ongoing City of Philadelphia ("City") recovery process continues to be significant. FY96 activity included (1) the approval of a fifth year Five-Year Financial Plan, which Plan contemplates balanced budgets and tax reductions in each component year; (2) monitoring compliance with the Five-Year Financial Plan currently in effect; (3) continuing review and monitoring of the City's capital and operating budgets; and (4) oversight as to the commitment and expenditure of remainder moneys borrowed by PICA for City capital projects, productivity enhancements and indemnity costs (deficit reduction). Another significant FY96 PICA action, which contributed to the City's fourth consecutive General Fund surplus and potential future financial improvement, was the successful refunding/restructuring of a significant portion of PICA's outstanding debt as of May 15, 1996. That action resulted in a net present value cashflow savings to the City of approximately $46 million during fiscal years 1996 through 2002 while also providing aggregate debt service reductions of approximately $27 million and a net economic gain approaching $3 million.

PICA's office operations were improved during FY96, both by on-going computer system upgrades and by a reduced annual cost facility lease renegotiation which resulted in improved facilities providing previously unavailable operations efficiencies. PICA also continued to serve as an independent source of objective information and opinion for the benefit of the citizens of the City and Commonwealth as well as for the media, the financial community and other outside observers (including the U.S. Accounting Office which again spent considerable time reviewing PICA's successful operation for the purpose of advising the U.S. Congress on matters relating to oversight of the District of Columbia).

The success of PICA's cumulative efforts to date as the agency charged by the Commonwealth with the responsibility for oversight and monitoring of the City's finances has been gratifying. The members of the PICA Board acknowledge and sincerely appreciate the continuous support they have received from the Governor and the General Assembly and also the ongoing cooperation of the Mayor, City Council and City Controller.

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Chairperson

Charisse R. Lillie
Vice Chairperson

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Treasurer

Edward J. DiDonato
Secretary

G. Fred DiBona, Jr.
Assistant Secretary
Assistant Treasurer

PICA Annual Report Requirements

The Pennsylvania Intergovernmental Cooperation Authority Act for Cities of First Class, Act of 1991, P.L. 9, No. 6 at §203(b)(5) requires PICA:

> To make annual reports within 120 days of the close of the Authority's fiscal year commencing with the fiscal year ending June 30, 1992, to the Governor and the General Assembly describing its progress with respect to restoring the financial stability of assisted cities and achieving balanced budgets for assisted cities, such reports to be filed with the Governor, with the presiding officers of the Senate and the House of Representatives, with the Chairperson and the Minority Chairperson of the Appropriations Committee of the Senate and the Chairperson and the Minority Chairperson of the House of Representatives and with the Governing Body, Mayor and Controller of the assisted city.

§207 of the Act further provides for an annual audit to be included with the 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 the 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 financial statement shall be published annually in the Pennsylvania Bulletin.

Overview - PICA and its Role

PICA Act

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created in 1991 to assist the City of Philadelphia (the "City") in overcoming a severe financial crisis. The City was burdened with a growing cumulative operating deficit, lacked resources to pay mounting overdue bills from vendors, had been pushed below the investment grade level by national rating agencies, had instituted an across-the-board hiring freeze, was in a mode in which the quality of municipal services being provided was rapidly eroding, and literally verged on bankruptcy. PICA was created through the efforts of Philadelphians and State officials who envisioned a structure which would provide the City with sufficient breathing room to put its revenue collection and spending processes in order, and to reach a consensus on its future priorities, assets and limitations. The PICA Act was a compromise fashioned to meet the requirements of the Pennsylvania Constitution, the concept of local government Home Rule, and the interests of the State in the preservation of the financial integrity of its municipalities. PICA's role, a combination of cooperation, assistance and oversight was determined to be of vital importance in both a financial and political sense. It was designed to be a catalyst in the City re-evaluation of the role and priorities of municipal government.

Cooperation Agreement

The Intergovernmental Cooperation Agreement negotiated by and between PICA and the City and finalized in January of 1992 formalized the relationship contemplated by the PICA legislation. The powers and duties of the respective participants envisioned in the legislation were put into place with the execution of the Agreement. PICA was designed to be much more than a vehicle to raise otherwise unavailable funds for Philadelphia. It has the responsibility to evaluate and approve annually revised Five-Year Financial Plans, to monitor compliance by the City with such Plans, and the power to withhold both substantial Commonwealth financial assistance and the net proceeds of the PICA Tax (after PICA debt service) should the City fail to comply with its duty to balance such Plan in each of its years.

The PICA Organization

The Authority Board determined at the outset 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 totals seven, 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 does not seek to create a self-perpetuating bureaucracy.

PICA Financial Assistance to the City

The issuance of bonds to provide the funds directly required to assist the City to avoid insolvency and for essential capital programs was an important initial role of the Authority. That role has been successfully completed and the Authority's "new money" bond issuance powers have expired. Authority bond issuance is currently

limited to refinancing existing Authority debt in order to realize net debt service savings to the City.

Through debt issuance and capital program earnings the Authority has provided in excess of $1,094 million to directly assist the City, allocated to the following purposes:

Purpose	Amount (thousands)
Deficit Elimination/Indemnities Funding	$ 256,200
Productivity Bank	20,000
Capital Projects	437,195
Retirement of Certain High Interest City Debt	381,300
TOTAL	$1,094,695

The Five-Year Financial Plan Process

PICA has consistently emphasized its strong belief that the City's fiscal rehabilitation is dependent upon its success in addressing both financial and managerial issues; that the process is less one dealing with finance than assessing the financial results of managerial decisions. Effective strategic planning and the institutionalization of change remain as challenges which the City must deal with if it is to continue to move forward. Vision and management will determine whether the still formidable assets of the City of Philadelphia are applied intelligently and consistently. The Plan process helps to document the City's intentions.

As mandated in the PICA Act (and as further refined by the Intergovernmental Cooperation Agreement), the Plan is required 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); and

- 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.

There also are statutorily mandated standards for development of the Plan (and the manner in which it is to be evaluated by PICA):

- o all projections of revenues and expenditures are to be based upon consistently applied reasonable and appropriate assumptions and methods of estimation;

- o revenues are to be recognized in the accounting period in which they become both measurable and available; and

- o cash flow projections are to be made based upon reasonable and appropriate assumptions as to sources and uses of cash, including factors intended to provide a complete picture of cash demands.

The PICA Act also mandates standards for the basis for estimation of City revenues:

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.

Deviations from such standards for estimation of revenues and appropriations which are proposed to be used by the City are to be disclosed specifically to the Authority and approved by a "qualified majority" of the Authority (four of its five appointed members). The Authority's Board generally has required that conservative criteria be used, and the result of the PICA process has been credible budget and Plan-making.

The Plan is also required 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.

The PICA Act requires that the Authority solicit an opinion or certification from the City Controller, prepared in accordance with generally accepted auditing standards, with respect to the reasonableness of the assumptions and estimates in the Plan. The PICA Act does not, however, require that the Controller's determinations bind the Authority in its evaluation of a proposed Plan.

The PICA Act (§209) and the Cooperation Agreement (§409(b)) require submission of quarterly reports by the City concerning its compliance with the current Plan within 45 days of the end of a fiscal quarter. If a quarterly report indicates that the City is unable to project a balanced Plan and budget for its current fiscal year, the Authority may by the vote of a qualified majority declare the occurrence of a "variance", which is defined in §4.10 of the Cooperation Agreement as follows:

> (i) a net adverse change in the fund balance of a Covered Fund of more than one percent (1%) of the revenues budgeted for such Covered 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 ninety-five percent (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.

As defined in §1.01 of the Cooperation Agreement, the City's "Covered Funds" are the General Fund, General Capital Fund, Grants Revenue Fund and any other principal operating funds of the City which become part of the City's Consolidated Cash Account.

The Effect of a "Variance"

The statute mandates the submission of monthly reports to PICA by the City in the event of a determination by the Authority of the occurrence of a variance. That situation occurred once in PICA's history. In November of 1992, the City projected a variance of $57 million (2.5%) for the 1993 fiscal year, and the Authority agreed with that assessment on December 9, 1992. Thereafter, until May of 1993, the City filed required monthly reports. The City was relieved of its burden to make monthly reports when the Authority approved the City's plan of correction in conjunction with its approval of the City's Five-Year Financial Plan for FY93-FY98 in May of 1993.

As provided in §210(e) of the PICA Act, legal consequences flow from a determination by the Authority of the existence of a variance. In addition to the City's additional reporting responsibilities, it also is required to develop revisions to the Plan necessary to cure the variance. The remedies which PICA has available to it to deal with a continuing uncorrected variance are to direct the withholding of both specific Commonwealth funds due the City, and that portion of the 1.50% tax levied on the wages and income of residents of the City in excess of the amounts necessary to pay debt service on PICA's bonds. Any amounts withheld would be paid over to the City after correction of the variance.

PICA "Threshold" Policies

From its inception PICA has held to the following policies in its evaluation of Philadelphia's Plans, initiatives, proposals and performance:

> Emphasis on Structural Change - Consistent City failure to deal effectively with a long list of areas of government operations and service delivery contributed to the need for PICA. The City shall continually be encouraged to rethink existing policies and practices and to avoid sacrificing long-term progress for short-term gain.

Focus on Long-Term Progress - Meaningful strategic planning, institutionalization of appropriate change, focus on attaining long-term structural balance and on implementing pragmatic economic stimulus policies and procedures are matters of paramount importance and are to be emphasized in the PICA oversight process.

Infrastructure Programs - A meaningful capital program is a very visible and tangible element of a City's social contract with its residents. The capital program, including proper maintenance of capital assets, is a key element of the efforts of the City to restore long-term fiscal stability. City implementation of a consistent policy to adequately fund and staff infrastructure maintenance shall be continually encouraged.

Consistent Application of Stated Assumptions - Inconsistent application of unstated assumptions frequently caused pre-PICA City budgets to lack credibility, and made reliable assessment of prospects of attaining the results of such budgets impossible. PICA's Plan review process shall focus on assumptions utilized being both visible and consistent in their application.

Use of Credible Revenue Estimates - Realistic revenue estimates are a vital component of the City's budgeting and Plan preparation process and shall be a matter of primary concern in PICA's Annual Plan review process.

While it would be incorrect to claim that PICA threshold policies have resulted in all desired effects coming to fruition, they appear to have contributed substantially to City procedural improvements.

Philadelphia City Controller

An unforeseen benefit of the PICA Act's requirement that PICA solicit an opinion from the City Controller as to the reasonableness of Plan assumptions and estimates has been the extensive cooperative professional relationship which has developed between PICA Staff and the Controller's Office. The mutually beneficial professional relationship includes ongoing cooperation on matters of common concern and regular staff meetings with respect to such matters; joint reviews of Plan components including appropriate joint meetings with City department heads and chief operating personnel pertinent thereto; cooperation on capital project reviews and reviews of PICA funded special purpose grants to the City; PICA assistance for Controller special situation studies; and specific Office of the Controller personnel assigned responsibility for effective ongoing liaison with PICA Staff. The City Controller provides copies of all City audit reports and copies of special situation studies (such as its excellent "Mid-Year Economic and Financial Report") to PICA on a timely basis. The assistance provided to PICA by the City Controller is sincerely appreciated. Cooperation between its "oversight" and "watchdog" entities has substantially benefited the City.

Corporate Entities and The School District of Philadelphia

"Corporate Entities" are defined in §1.01 of the Cooperation Agreement as "an authority or other corporate entity, now existing or hereafter created, of which one or more members of its governing board are appointed by the Mayor and which performs governmental functions for the City". The Agreement provides that the City shall

cooperate with PICA in any PICA request to look into the operations of either the corporate entities or the School District of Philadelphia. To date PICA has not devoted any substantial attention to the operations of such City related institutions, but it anticipates doing so in the future, particularly with respect to the School District of Philadelphia.

The Work of PICA - Fiscal Year 1996

Approval of the FY97-FY2001 Plan

Review and recommendation for approval of the City's FY97-FY2001 Five-Year Financial Plan was a major element of PICA Staff activities during the 1996 fiscal year. PICA's comprehensive review of the Plan included assessment of the reasonableness of Plan revenue projections. The approved Plan includes annual cuts in Wage, Earnings and Net Profits and Business Privilege Taxes, and estimates of the impact of the tax cuts on revenues were carefully weighed during the review process.

The FY97-FY2001 Plan approval recognized that such Plan's outcome was dependent on a variety of circumstances beyond the City's control. Items particularly recognized as "to be resolved" included:

- Collective bargaining and arbitration processes then (and still partially) underway resulting in new labor contracts during the initial four years of the Plan.

- The potential for radically altered Federal and State government revenue streams which currently support City programs, other Philadelphia public agencies, and residents in need.

- Reliance on realization of highly speculative riverboat gaming tax revenues commencing in FY99.

Such items continue to be closely monitored by PICA Staff in PICA's ongoing review process.

PICA 1996 Refunding Bond Issue

In May of 1996, PICA issued its Series of 1996 Special Tax Revenue Refunding Bonds in the amount of $343,030,000. The issuance of these bonds, which bore interest rates ranging from 3.70% to 5.87% (1997-2020), was part of a complicated refunding/restructuring transaction which successfully resulted in reducing PICA's debt service in the years 1996 through 2002 by approximately $6.25 million annually (thus generating immediate cashflow savings to the City of such amounts) while also reducing overall future debt service by approximately $27 million and providing a net economic gain approaching $3 million.

Strategic Planning

PICA has consistently urged the City to undertake a strategic planning process to both assist in institutionalizing the management reforms that have been implemented to date, and to also promote the further changes in the fundamental operations of City government that are necessary for the City to maintain financial stability over the long term. The City responded with a strategic planning process which began in the fall of 1993. This process resulted in a Strategic Plan for City government as a whole which was published as an appendix to the FY96-FY2000 Financial Plan in January of 1995. This Citywide Strategic Plan is a comprehensive statement of the issues facing City government and the general strategies and action steps that the City expects to follow in addressing these issues over the coming years.

The production of the Citywide plan was an important step, however, for the full value of the strategic planning process to be realized, individual departments and agencies still need to produce strategic plans which will translate the Citywide plan into specific actions that those agencies will undertake and measurable goals they plan to achieve. The latter plans are still under development. PICA Staff continues to monitor the City's progress in developing departmental strategic plans.

City Capital Program

Oversight of the capital program continued to be a key element in PICA's work in FY96. PICA Staff continued to advocate the need for improvements in the City's capital project management processes. The City continues to make progress in implementing project management software, which has resulted in improved scheduling and monitoring of capital project activities. In addition, improvements have been made to the accounting system that should enable improved monitoring of budget, encumbrance, and expenditure information by project. PICA Staff continues to review City developments in this area, particularly with regard to full utilization of the new systems.

PICA Staff has continually noted the need for the City's capital program to be guided by an overall strategic plan. Progress in this area to date has been limited by the fact that the strategic planning process remains incomplete. PICA Staff continues to monitor the relationship of the capital program and capital budgets to other citywide programs.

Maintenance of City Facilities

The need for an efficient maintenance program for all City facilities has been an ongoing PICA concern. Past preventive maintenance inadequacies led to substandard maintenance at City facilities, with direct impacts on service levels, and diversion of capital dollars from productive uses into otherwise unnecessary facility repair as maintenance problems developed over time into major capital repair requirements. To prevent these problems in the future, PICA Staff believes that the City must move from the current procedure of having separate facility maintenance units located within the various City departments, toward a consolidated citywide facility maintenance program.

Consolidation of facility maintenance activities was projected to be in place by FY96, but this did not occur. The City is currently implementing a computerized facility management system which is intended to assist in improving the efficiency of facility maintenance programs in various City departments. The system is expected to assist in scheduling routine and emergency maintenance activities and monitoring performance. The City anticipates that the system will improve the quality of information available about the maintenance needs of City facilities and the efficiency of existing maintenance efforts, which could assist in making the transition to a centralized program. While progress in the area of preventive maintenance is slowly being made, further progress is needed to insure that facilities are maintained to acceptable standards and that the level of the City's investment in maintenance is appropriate to reduce the City's costs over the long term.

The Tax Base and the Local Economy

PICA Staff continued to monitor trends in employment and other economic indicators in FY96. A critical factor leading to the City's financial crisis was the erosion of jobs and residents from Philadelphia in the late 1980s and early 1990s. Job loss in the City has continued, at a somewhat lesser pace. Trends in City employment relative to national employment suggest that the slowdown in job loss may be mostly attributable to overall improvement in the national economy, not to a change in the long term competitiveness of the City with other locations nationally. Also, the trend of economic restructuring away from manufacturing and toward services is continuing, with resultant concerns about City resident income levels. There are still numerous reasons for concern about the City's economy and the impact it will have on the City's financial stability in the future. For this reason, PICA continues to stress the need for the City to emphasize economic stimulus and address the problems of business that are resulting in decisions to leave the City.

The City's high tax burden for individuals and businesses remains a major obstacle to economic development. The continuing tax cuts proposed in the FY97-FY2001 Plan are a major step toward addressing this problem. However, even with the implementation of the continuing tax reductions, significant tax differentials will remain between the City and competing locations in the suburbs and elsewhere. While much of the tax differential is driven by State and Federal policies, there is still much the City government can do to promote a more competitive tax burden in the City; including actions to increase productivity and cut costs, to better enforce City tax laws, and to make appropriate changes in the levels and mix of services provided consistent with a Strategic Plan. PICA Staff continues to press for such results.

Indemnities

During FY96, the City did not draw funds from the Special Indemnity Accounts created with PICA bond proceeds (from the Authority's 1992 bond issue) that were not needed to finance initially projected deficits. As of June 30, 1996, in excess of $9.6 million remained in such Accounts, including proceeds from the 1992 bond issue granted to the City by PICA and subsequent interest earnings. These funds continue to be available for indemnity payments associated with cases resolved under the Court of Common Pleas Day Backward/Day Forward backlog reduction program.

Special Purpose Staff Reports

In prior years, PICA's Staff Reports were primarily designed to discharge its responsibility under the PICA Act to make factual findings concerning Philadelphia's budgetary and fiscal affairs and to make recommendations to the City on such findings and affairs. During FY96, PICA Staff issued its initial report designed to discharge an additional responsibility under the Act -- to make recommendations to the Governor and the General Assembly on matters relating to the City's financial stability. The PICA "Staff Report on State Funding of the Philadelphia Department of Human Services", a primer/reference document on certain Philadelphia problems emanating from Pennsylvania's Children and Youth Program funding, was issued in December of 1995. It was well received by elected officials and other parties concerned with the anticipated impact of Federal Welfare Reform and Commonwealth funding mechanism revisions that may result from such action.

Future special purpose reports will be issued as circumstances dictate.

Goals for PICA - Fiscal Year 1997

Review of Required Revision to FY97-FY2001 Plan

The Intergovernmental Cooperation Agreement provisions requiring that the City submit proposed revisions to its approved Five-Year Financial Plan (1) within fifteen days after the execution of new collective bargaining agreements, and (2) no later than twenty days after any final arbitration awards, would have required the City to submit, and PICA to review, four different revisions to the Plan currently in effect -- one each time the various new agreements/awards replacing those which expired on June 30, 1996 were finalized. At the request of the Mayor, PICA agreed to waive such multiple revision requirements and to accept one revision, encompassing the net effects of all of the new agreements/awards, to be submitted to PICA within fifteen days after the final arbitration award or within fifteen days after the end of the first quarter of FY97, whichever is later. Agreements have been reached on four-year collective bargaining agreements with AFSCME District Councils 33 and 47, and a two-year Act 111 Arbitration Award has been finalized with respect to police officers represented by FOP Lodge 5. Arbitration continues with respect to firefighters represented by IAFF Local 22.

Review of the revised FY97-FY2001 Plan, when received, will be a first priority matter for PICA Staff. Details of the consummated agreements and Act 111 Award are presently under study.

On Going Goals

The nature of PICA's mission, reproduced on page ii in the introductory section of this report, is such that its goals remain relatively unchanged from year to year. Those goals for FY97 include:

- Continuing to focus attention on the need for City department and agency produced strategic plans which delineate specific actions to be undertaken and measurable goals to be achieved to assist in attaining the goals of the Citywide Plan.

- Continuing oversight of PICA funded City capital projects, stressing essential improvements to City capital project management procedures and the benefits derivable from interrelated strategic planning, capital planning and economic stimulus programs.

- Continuing encouragement for the timely implementation of a consolidated Citywide facility maintenance program.

- Encouraging continuing evaluation of potential opportunities to divest from providing services and functions that might better be privatized or handled by other governments, and also encouraging decisions as to how the City can best provide the services and functions that remain its responsibility.

- Monitoring compliance with the Five-Year Financial Plan currently in effect while also reviewing and timely acting upon the revised Plan to be submitted early in calendar year 1997 for fiscal years FY98 to FY2002.

White Paper Project

PICA Staff expects to provide "White Papers" on matters of significant concern during FY97 and on a continuing basis thereafter. Topics for such papers are presently being researched.

Overall Goal

PICA's overall goal continues to be assisting the City to reach a level where it is totally proactive in its approach to serving its citizenry, where, after performing a thorough and objective self-evaluation, it defines its prospects through the first decade of the next century, and then articulates and follows through with a service delivery philosophy consistent with the resources available to it. No less will be acceptable.

Future City Reporting to PICA

Required Revised Plan

The Five-Year Financial Plan for the Fiscal Year 1997-2001 (including Fiscal Year 1996) was presented to PICA on April 1, 1996 and approved by PICA on April 30, 1996. That approved Plan must soon be revised to incorporate the effects of new collective bargaining agreements and Act 111 arbitration awards executed in FY97, and the revised document submitted to PICA within fifteen days after receipt of the final arbitration award or the end of the first quarter of FY97 whichever is later.

Absent the occurrence of variance, receipt of an arbitration award which is at variance with the revised Plan or a determination by the City that further revisions to the Plan are necessary, the City will not submit another revised Plan until March of 1997. In the interim, the Authority will receive quarterly reports on the City's performance, together with other data integrated by both the PICA Act and the Cooperation Agreement.

Regular Reporting Required

The reporting system established in the Cooperation Agreement and in the PICA Act requires a regular flow of data from the City to PICA. That system is the fundamental device used by PICA Staff in its ongoing evaluation of City progress in its fiscal rehabilitation. PICA is generally satisfied as to the content and qualify of the information being provided to it. A continuing concern however, is that many City managers do not as yet appear to perform their own ongoing evaluation of such available financial information. Until all such managers effectively utilize all of the financial management tools available to them the City will continue to operate at less than full effectiveness.

Data to be Received by PICA Includes:

Quarterly Plan Reports. Under the Cooperation Agreement (§409(b)), the Authority receives reports from the City on a quarterly basis (within 45 days after the end of each fiscal quarter) concerning the status of compliance with the Plan and associated achievement of initiatives. The Cooperation Agreement (§409(e)) also requires that the City provide reports to PICA concerning Supplemental Funds (*i.e.*, the Water and Aviation Funds) on a quarterly basis.

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. This report details the receipt and use of Federal and Commonwealth Funds by the City. A separate report details the eligibility for fund withholding by the Commonwealth (at PICA's direction) in the event the City cannot propose credible measures to balance a Plan which has been declared at "variance" by PICA, 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, and upon each issuance of bonds or notes or execution of a lease.

Time Table of FY97 Reporting Requirements

Due Date	Description
October 21, 1996	Receipt of 1st Quarter FY97 Grants Revenue Fund Contingency Account Report
November 1, 1996	Receipt of 3rd Quarter FY97 Debt Service Requirements Report
November 15, 1996	Receipt of 1st Quarter FY97 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
January 20, 1997	Receipt of 2nd Quarter FY97 Grants Revenue Fund Contingency Account Report
January 31, 1997	Receipt of 4th Quarter FY97 Debt Service Requirements Report
February 17, 1997	Receipt of 2nd Quarter FY97 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
March 21, 1997	Submission of proposed revision to Plan and addition of FY2002
April 21, 1997	Receipt of 3rd Quarter FY97 Grants Revenue Fund Contingency Account Report
May 1, 1997	Receipt of 1st Quarter FY98 Debt Service Requirements Report
May 15, 1997	Receipt of 3rd Quarter FY97 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
July 21, 1997	Receipt of 4th Quarter FY97 Grants Revenue Fund Contingency Account Report
August 15, 1997	Receipt of 4th Quarter FY97 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld

Management Discussion of Financial Operations

General Fund

All FY96 administration expenses of the Authority were funded from Authority earnings on its General Fund and on its Debt Service Reserve Funds (established from proceeds of PICA bond issues) and residual balances of similar earnings from prior fiscal years. No City or Commonwealth tax revenues were used to pay any portion of PICA's administrative costs in FY96, nor are any expected to be used in FY97 for such purpose.

The PICA Act allows the Authority several sources of income to support its operations. The statute specifically provides that the Authority may draw earnings from the various funds and accounts created pursuant to its Trust Indenture, and also directly from the proceeds of PICA Taxes to the extent investment income is insufficient. The latter allowable revenue source has not been utilized by the Authority in its operations to date.

The PICA Act requires that the Authority adopt an annual budget (for the fiscal year commencing July 1) before March 1 of each year and also stipulates the format thereof, and information to be provided therewith to the Governor and General Assembly of the Commonwealth of Pennsylvania. PICA's annual General Fund budgets, since its inception, have all produced surpluses.

Details as to anticipated and actual fund balances as of June 30, 1996 and as to the FY97 budget are as follows:

Anticipated Residual Fund Balance:

Fund Balance at June 30, 1995	$692,111
Less: Fund Balance Utilized in FY96 Budget	395,018
Anticipated Fund Balance at June 30, 1996	297,093
Less: Fund Balance Utilized in FY97 Budget	33,884
Anticipated Residual Fund Balance at June 30, 1997	$263,209

Fund Balance at June 30, 1996 (Anticipated/Actual):

Anticipated Fund Balance at June 30, 1996	$297,093
Add: Net FY96 "Better than Budget" Operating Results	185,124
Actual Fund Balance at June 30, 1996	$482,217

General Fund Budget for FY97:

Revenues - General Fund Interest Earnings	$ 18,416
Other Financing Sources:	
Utilization of Portion of Fund Balance	33,884
Transfer from Bond Issue Investment Earnings ("Reserved for subsequent PICA Administration" in the 1993 Bond Issue Debt Service Reserve Fund at June 30, 1996)	929,000
Total General Fund Budget for FY97	$981,300

The philosophy underlying the Authority's General Fund operations remains that the Authority should (as noted in PICA's Annual Report for FY93) "maintain a personnel and expenditure level sufficient 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."

Special Revenue Fund

PICA's Special Revenue Fund receives PICA taxes (collected on its behalf by the Commonwealth), interest earnings on such collections, and net interest earnings on bond issue funds other than Capital Projects Funds (the earnings on Capital Projects Funds are restricted to use for grants to the City of Philadelphia for PICA approved capital projects). The Special Fund receipts are utilized to provide, monthly, from the first available funds in that month, one-sixth of the next semi-annual interest requirement on PICA bonds outstanding and one-twelfth of the next annual principal requirement on PICA bonds outstanding, in a manner calculated to provide the total required semi-annual interest and the total required annual principal at the close of the month prior to such required date. After provision of monthly debt service requirements, the residual balances in PICA's Special Revenue Fund are paid to City of Philadelphia as grants to the City's General Fund.

The Special Revenue Fund earned in excess of $229 thousand on its invested balances during FY96, and also received in excess of $7,852 thousand of net interest earnings transferred in from other bond issue provided funds. Thus, PICA grants to the City of Philadelphia's General Fund during FY96 exceeded the equation (PICA taxes minus provision for PICA Debt Service/monthly basis = PICA grants to the City) by in excess of $8,082 thousand.

Debt Service Funds

The individual funds contained in PICA's combined Debt Service Funds operate in accordance with Trust Indenture mandated procedures. At June 30, 1996, the Fund Equity of net assets held in the combined Debt Service Funds, by individual fund groups, consisted of:

Debt Service Fund -- Current assets held for interest due 12/15/96 and principal due 6/15/97	$ 9,077,436
Debt Service Reserve Fund -- Current assets held for debt service reserve purposes as required by the Trust Indenture	76,840,350
Rebate Fund -- Current assets held for future potential rebate/debt service purposes	858,654
Amount Reserved for Debt Service	$86,776,440
Debt Service Fund -- Current assets held for subsequent PICA administration purposes (Debt Service Reserve Fund earnings held for PICA FY97 operations - per adopted budget)	929,000
Fund Equity at June 30, 1996 -- Combined Debt Service Funds	$87,705,440

Expendable Trust Funds

Expendable trust funds include amounts held separately, by bond issue from which such funds were provided, for purposes of grants to the City of Philadelphia for specific PICA approved capital projects. The PICA Act restricts City use of PICA provided capital projects dollars to specific "emergency" and "productivity" projects approved by the PICA Board and, where necessary, by specified Commonwealth elected officials.

PICA, in connection with its three new-money bond issues, approved specific City capital projects totaling $424,632 thousand, while providing bond issue funds of $400,773 thousand for such projects. The difference, $23,859 thousand, as anticipated, has been raised from investment earnings of funds dedicated to capital projects. At June 30, 1996, sufficient PICA controlled capital projects funds were available to complete all of the PICA approved projects and an additional $12,563 thousand of yet to be designated projects.

Capital project funds held for PICA capital project grants to the City of Philadelphia totaled $102,690,848 at June 30, 1996.

Expendable Trust Funds at June 30, 1996 also included $266,349 held in a Settlement Fund for remainder costs related to debt issuance.

Arbitrage Reportable Funds

In accordance with IRS regulations, certain funds already granted to the City by PICA continue to be classified as PICA Arbitrage Reportable Funds until the City expends such funds for the purpose for which they were provided. Accordingly, and also for oversight purposes, PICA tracks the uses/balances of such grant funds and interest earnings thereon as yet unexpended by the City. As of June 30, 1996, such PICA provided funds as yet unexpended by the City included:

	Amount (in thousands)
Productivity Fund	$ 3,274
Indemnity Fund	$ 1,298
'95 Indemnity Fund	$ 8,312
'92 Capital Projects Encumbered Funds	$14,578
'93 Capital Projects Encumbered Funds	$15,355
'93 Criminal Justice Project Encumbered Funds	$ 4,352
'94 Capital Projects Encumbered Funds	$29,835

General Fixed Assets

The fixed assets of the Authority (leasehold improvements, furniture and equipment) are recorded at cost and their value totaled $112,403 at June 30, 1996. During fiscal 1996, the Authority acquired fixed assets (primarily new computer system components) at a cost of $20,243; and disposed of fixed assets (primarily outdated computer system components), which had cost $21,437, primarily by donation to the School District of Philadelphia.

General Long-Term Debt

PICA's General Long-Term Debt Account Group activity for the year ended June 30, 1996 is summarized as follows:

	Amount (in thousands)
Outstanding Debt at July 1, 1995	$1,237,515
Additional Debt Issued - 1996 Bond Issue	343,030
Total	$1,580,545
Debt Retired	434,370
Outstanding Debt at June 30, 1996	$1,146,175

Appendix A:

Financial Statements
and
Report of Independent Auditors

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

General Purpose Financial Statements and Supplemental Statements for the Year Ended June 30, 1996 and Independent Auditors' Report

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
GENERAL PURPOSE FINANCIAL STATEMENTS AS OF JUNE 30, 1996 AND FOR THE YEAR THEN ENDED:	
Combined Balance Sheet - All Fund Types and Account Groups	2
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Fund Types	3
Notes to General Purpose Financial Statements	4-22
SUPPLEMENTAL STATEMENTS AS OF JUNE 30, 1996 AND FOR THE YEAR THEN ENDED:	
Combining Balance Sheet - All Debt Service Funds	23
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - All Debt Service Funds	24
Combining Balance Sheet - All Expendable Trust Funds	25
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - All Expendable Trust Funds	26
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - General Fund	27
Statement of Cash Activity:	
General Fund	28
Special Revenue Fund	29

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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") as of June 30, 1996 and for the year 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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, 1996 and for the year 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 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 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 LLP

August 23, 1996

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1996

ASSETS	Governmental Fund Types			Fiduciary Fund Type	Account Groups		Total
	General	Special Revenue	Debt Service	Expendable Trust	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
CURRENT ASSETS:							
Cash and short-term investments	$644,628	$ 9,153	$95,424,950	$ 102,563,907			$ 198,642,638
Accrued interest receivable	847	1,157	291,479	393,290			686,773
Accounts receivable - PICA taxes		3,846,103					3,846,103
Interfund receivable		8,010,989					8,010,989
Total current assets	645,475	11,867,402	95,716,429	102,957,197			211,186,503
PROPERTY, PLANT AND EQUIPMENT - Office furniture and equipment					$112,403		112,403
OTHER ASSETS - Prepaid rent and security deposit	11,940						11,940
AMOUNT AVAILABLE IN DEBT SERVICE FUNDS FOR RETIREMENT OF LONG-TERM DEBT						$ 86,776,440	86,776,440
AMOUNT TO BE PROVIDED FOR RETIREMENT OF LONG-TERM DEBT						1,059,398,560	1,059,398,560
TOTAL ASSETS	$657,415	$11,867,402	$95,716,429	$ 102,957,197	$112,403	$1,146,175,000	$1,357,485,846
LIABILITIES AND FUND EQUITY							
CURRENT LIABILITIES:							
Accounts payable	$110,605						$ 110,605
Accrued payroll and taxes	64,593						64,593
Due to the City of Philadelphia		$11,867,402					11,867,402
Bonds payable - current portion						$ 43,795,000	43,795,000
Interfund payable			$ 8,010,989				8,010,989
Total current liabilities	175,198	11,867,402	8,010,989			43,795,000	63,848,589
BONDS PAYABLE - Long-term portion						1,102,380,000	1,102,380,000
FUND EQUITY:							
Fund balances:							
Unreserved	482,217						482,217
Reserved for debt service			86,776,440				86,776,440
Reserved for benefit of the City of Philadelphia				$ 102,957,197			102,957,197
Reserved for subsequent PICA administration			929,000				929,000
Investment in general fixed assets					$112,403		112,403
Total fund equity	482,217		87,705,440	102,957,197	112,403		191,257,257
TOTAL LIABILITIES AND FUND EQUITY	$657,415	$11,867,402	$95,716,429	$ 102,957,197	$112,403	$1,146,175,000	$1,357,485,846

See notes to general purpose financial statements.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL FUND TYPES
YEAR ENDED JUNE 30, 1996

	Governmental Fund Types			Fiduciary Fund Type	Total
	General	Special Revenue	Debt Service	Expendable Trust	(Memorandum Only)
REVENUES:					
PICA Taxes		$ 218,811,445			$ 218,811,445
Interest earned on investments	$ 49,705	228,062	$ 12,888,367	$ 8,532,956	21,699,090
Total revenues	49,705	219,039,507	12,888,367	8,532,956	240,510,535
EXPENDITURES:					
Grants to the City of Philadelphia		118,988,477		61,307,294	180,295,771
Debt service:					
Principal			10,030,000		10,030,000
Interest			55,649,221		55,649,221
Administration:					
Operations	725,856				725,856
Capital outlay	20,243				20,243
Debt issuance costs				2,510,861	2,510,861
Payment to refunded debt escrow agent			104,450,492		104,450,492
Total expenditures	746,099	118,988,477	170,129,713	63,818,155	353,682,444
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(696,394)	100,051,030	(157,241,346)	(55,285,199)	(113,171,909)
OTHER FINANCING SOURCES (USES):					
Proceeds from debt issuance:					
For PICA debt refunding				348,708,121	348,708,121
Payment to refunded debt escrow agent				(345,133,007)	(345,133,007)
Operating transfers in (out)	486,500	(100,051,030)	100,363,716	(799,186)	
Total other financing sources (uses)	486,500	(100,051,030)	100,363,716	2,775,928	3,575,114
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(209,894)		(56,877,630)	(52,509,271)	(109,596,795)
BEGINNING FUND BALANCES, JULY 1, 1995	692,111		144,583,070	155,466,468	300,741,649
ENDING FUND BALANCES, JUNE 30, 1996	$ 482,217	$ -	$ 87,705,440	$ 102,957,197	$ 191,144,854

See notes to general purpose financial statements.

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 nonvoting 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 request of the City to the Authority for financial assistance and for so long as any bonds of the Authority remain outstanding, the Authority shall have certain financial and oversight functions. First, the Authority shall have the power, subject to satisfaction of certain requirements in the Act, 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, for which a budget is adopted annually.

The Special Revenue Fund accounts for the proceeds of the PICA Tax (a tax levied on the wages and net profits of City of Philadelphia residents) remitted to the Authority via the Commonwealth. It is utilized to

fund the debt service requirements of the Authority and to provide grants to the City. It encompasses the Revenue Fund established with the Trustee by the Trust Indenture (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 Trust Indenture:

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

The Bond Redemption Fund has not yet been required.

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 Trust Indenture (Note 3):

- Capital Projects Fund
- Deficit Fund
- Settlement Fund

The Deficit Fund completed its designated purpose during the fiscal year ended June 30, 1995 and is presently inactive.

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 $112,403 and their offsetting equity account, investment in general fixed assets, include the fixed assets of the Authority, primarily leasehold improvements, furniture and equipment. General fixed assets are recorded at cost. During fiscal 1996, the Authority acquired fixed assets (primarily new computer system components) at a cost of $20,243; and disposed of fixed assets (primarily outdated computer system components), which had cost $21,437, primarily by donation to the School District of Philadelphia.

- 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.

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 Revenue and Law Departments (collectively) 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, 1996 totaled $29,604.

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.

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 of 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, 1996, the carrying amount of the Authority's deposits (including certificates of deposit and time deposit open accounts) with financial institutions was $3,418,900. The bank balance of $3,460,084 was insured or collateralized as follows:

Insured	$ 95,898
Uninsured and uncollateralized, but covered under the provisions of Act 72, as amended	3,364,186
Total deposits	$3,460,084

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 (the lower of cost or market) and categorization as to credit risk at June 30, 1996:

	Carrying Value			
		Credit Risk Category		
	Total	(1)	(2)	(3)
Federal Home Loan Mortgage Corp. discount notes	$ 18,101,670			$ 18,101,670
Guaranteed investment contracts	54,760,312			54,760,312
Repurchase agreements	122,361,756			122,361,756
Total investments	$195,223,738			$195,223,738

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 year ended June 30, 1996, deposits and investments of the Authority were similar to those on hand at June 30, 1996 with respect to credit risk. Because of the nature of the investments and the dates they were purchased the market value of the investments approximates their carrying value at June 30, 1996.

3. SPECIAL TAX REVENUE BONDS

Through June 30, 1996, the Authority issued five series of Special Tax Revenue Bonds, as follows:

Series of	Amount Issued
1992	$474,555,000
1993	643,430,000
1993A	178,675,000
1994	122,020,000
1996	343,030,000

The following summary shows the changes in bonds payable recorded in the General Long-Term Debt Account Group for the year ended June 30, 1996:

Series of	July 1, 1995	Additions	Retirements	June 30, 1996
1992	$ 304,160,000		$304,160,000	
1993	639,205,000		8,605,000	$ 630,600,000
1993A	173,970,000		1,425,000	172,545,000
1994	120,180,000		120,180,000	
1996		$343,030,000		343,030,000
	$1,237,515,000	$343,030,000	$434,370,000	1,146,175,000
Less current portion				43,795,000
Long-term portion				$1,102,380,000

In conjunction with its 1992, 1993 and 1993A bond issues, the Authority entered into an Indenture of Trust dated as of June 1, 1992 which was subsequently amended and supplemented as of June 22, 1992, July 15, 1993 and August 15, 1993. An Amended and Restated Indenture of Trust dated as of

Total annual debt service requirements (annual principal or sinking fund requirements and interest payments) on the outstanding bonds at June 30, 1996 are as follows:

Fiscal Year Ending	Total Debt Service Requirements
1997	$107,119,937
1998	107,026,115
1999	107,048,863
2000	107,074,615
2001	107,002,815
2002	107,299,780
2003	79,230,570
2004	76,395,643
2005	88,031,565
2006	97,525,540
2007	97,546,305
2008	80,457,797
2009	71,838,470
2010	65,013,175
2011	61,354,855
2012	61,336,095
2013	61,322,697
2014	61,302,304
2015	61,288,656
2016	61,257,819
2017	61,235,450
2018	52,109,575
2019	43,392,156
2020	43,386,163
2021	34,002,313
2022	34,000,844
2023	20,493,188

Details as to the purpose of each of the respective Series of bonds issued by the Authority to June 30, 1996 and as to bonds outstanding at that date follow. With respect to bonds issued during fiscal 1996 an analysis of the bond proceeds and their disposition as of June 30, 1996 is also presented below.

A. **Series of 1992**

The proceeds from the sale of the Series of 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 Years 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 Series of 1992 Bonds through June 15, 1993, (v) repay amounts previously advanced to the Authority by the Commonwealth of Pennsylvania 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 Series of 1992 Bonds.

Series of 1992 Bonds in the aggregate principal amount of $136,670,000, initially scheduled to mature June 15, 2006, 2012 and 2022 were advance refunded on September 14, 1993 (the "Refunded 1992 Bonds") through an irrevocable trust created by using a portion of the proceeds of the Series of 1993A Bonds. Series of 1992 Bonds in the aggregate principal amount of $304,160,000, initially scheduled to mature June 15, 1996, 1997, 1998, 1999, 2000 and 2002 were advance refunded on May 15, 1996 (also the "Refunded 1992 Bonds") together with the Refunded 1994 Bonds (see Series of 1994 in this Note 3) through an irrevocable trust created by using the net proceeds of the Series of 1996 Bonds together with monies on deposit with the Trustee on account of the Refunded 1992 Bonds, monies on deposit with the Trustee on account of the Refunded 1994 Bonds and sums derived from certain forward purchase agreements entered into with respect to the irrevocable trust. The Refunded 1992 Bonds are no longer deemed to be outstanding under the Trust Indenture (see Notes 4 and 5).

B. **Series of 1993**

The proceeds from the sale of the Series of 1993 Bonds were to be used to (i) make grants to the City to pay the costs of certain emergency capital projects (including capital improvements to the City's Criminal Justice and Correctional Facilities) to be undertaken by the City and other capital projects to increase productivity in the operation of City government, (ii) make a grant to the City for refunding of certain of the City's General Fund Obligation Bonds, (iii) make the required deposit to the Debt Service Fund, and (iv) to pay the costs of issuing the Series of 1993 Bonds.

The details of Series of 1993 Bonds outstanding at June 30, 1996 are as follows:

Interest Rate	Maturing June 15	Amount
4.000 %	1997	$ 9,785,000
4.200	1998	10,085,000
4.400	1999	10,530,000
4.550	2000	11,005,000
4.700	2001	11,455,000
4.800	2002	12,095,000
4.900	2003	25,440,000
5.050	2004	23,860,000
5.150	2005	36,615,000
5.250	2006	47,920,000
5.350	2007	50,460,000
5.450	2008	36,075,000
5.500	2009	29,415,000
5.600	2015	92,365,000
5.750	2015	54,380,000
5.600	2016	10,000,000
5.625	2023	119,115,000
5.875	2023	40,000,000
Total		$630,600,000

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 1993 Bonds outstanding at June 30, 1996:

Fiscal Year Ending	Principal or Sinking Fund Requirements	Interest	Total Debt Service Requirements
1997	$ 9,785,000	$33,943,956	$43,728,956
1998	10,085,000	33,552,556	43,637,556
1999	10,530,000	33,128,986	43,658,986
2000	11,005,000	32,665,666	43,670,666
2001	11,455,000	32,164,939	43,619,939
2002	12,095,000	31,626,554	43,721,554
2003	25,440,000	31,045,994	56,485,994
2004	23,860,000	29,799,434	53,659,434
2005	36,615,000	28,594,504	65,209,504
2006	47,920,000	26,708,831	74,628,831
2007	50,460,000	24,193,031	74,653,031
2008	36,075,000	21,493,421	57,568,421
2009	29,415,000	19,527,334	48,942,334
2010	24,205,000	17,909,509	42,114,509
2011	21,920,000	16,540,439	38,460,439
2012	23,140,000	15,299,329	38,439,329
2013	24,440,000	13,989,891	38,429,891
2014	25,800,000	12,607,654	38,407,654
2015	27,240,000	11,149,256	38,389,256
2016	28,755,000	9,610,219	38,365,219
2017	30,360,000	7,982,750	38,342,750
2018	22,955,000	6,262,500	29,217,500
2019	15,535,000	4,958,781	20,493,781
2020	16,420,000	4,072,438	20,492,438
2021	17,355,000	3,136,313	20,491,313
2022	18,345,000	2,147,594	20,492,594
2023	19,390,000	1,103,188	20,493,188

C. **Series of 1993A**

The proceeds from the sale of the Series of 1993A Bonds were to be used to (i) provide for the advance refunding of a portion of the Authority's Special Tax Revenue Bonds Series of 1992, in the aggregate principal amount of $136,670,000, (ii) make the required deposit to the Debt Service Fund, and (iii) to pay the costs of issuing the Series of 1993A Bonds.

The details of Series of 1993A Bonds outstanding at June 30, 1996 are as follows:

Interest Rate	Maturing June 15	Amount
4.000 %	1997	$ 645,000
4.050	1998	665,000
4.200	1999	695,000
4.350	2000	735,000
4.500	2001	750,000
4.600	2002	775,000
4.750	2003	5,095,000
4.850	2004	5,335,000
4.950	2005	5,595,000
5.050	2006	5,870,000
5.150	2007	6,165,000
5.250	2008	6,480,000
5.000	2013	12,000,000
5.000	2013	25,710,000
5.000	2022	96,030,000
Total		$172,545,000

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 1993A Bonds outstanding at June 30, 1996:

Fiscal Year Ending	Principal or Sinking Fund Requirements	Interest	Total Debt Service Requirements
1997	$ 645,000	$ 8,602,140	$ 9,247,140
1998	665,000	8,576,340	9,241,340
1999	695,000	8,549,408	9,244,408
2000	735,000	8,520,218	9,255,218
2001	750,000	8,488,245	9,238,245
2002	775,000	8,454,495	9,229,495
2003	5,095,000	8,418,845	13,513,845
2004	5,335,000	8,176,833	13,511,833
2005	5,595,000	7,918,085	13,513,085
2006	5,870,000	7,641,133	13,511,133
2007	6,165,000	7,344,698	13,509,698
2008	6,480,000	7,027,200	13,507,200
2009	6,825,000	6,687,000	13,512,000
2010	7,165,000	6,345,750	13,510,750
2011	7,525,000	5,987,500	13,512,500
2012	7,900,000	5,611,250	13,511,250
2013	8,295,000	5,216,250	13,511,250
2014	8,710,000	4,801,500	13,511,500
2015	9,145,000	4,366,000	13,511,000
2016	9,600,000	3,908,750	13,508,750
2017	10,080,000	3,428,750	13,508,750
2018	10,585,000	2,924,750	13,509,750
2019	11,120,000	2,395,500	13,515,500
2020	11,670,000	1,839,500	13,509,500
2021	12,255,000	1,256,000	13,511,000
2022	12,865,000	643,250	13,508,250

D. **Series of 1994**

The proceeds from the sale of the Series of 1994 Bonds were used to (i) 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, (ii) make the required deposit to the Debt Service Reserve Fund, and (iii) pay the costs of issuing the Series of 1994 Bonds.

Series of 1994 Bonds in the aggregate principal amount of $120,180,000 initially scheduled to mature on and after June 15, 1996 were advance refunded on May 15, 1996 (the "Refunded 1994 Bonds") together with the Refunded 1992 Bonds (see Series of 1992 earlier in this Note 3) through an irrevocable trust created by using the net proceeds of the Series of 1996 Bonds together with monies on deposit with the Trustee on account of the Refunded 1994 Bonds, monies on deposit with the Trustee on account of the Refunded 1992 Bonds and sums derived from certain forward purchase agreements entered into with respect to the irrevocable trust. The Refunded 1994 Bonds are no longer deemed to be outstanding under the Trust Indenture (see Notes 4 and 5).

E. **Series of 1996**

The proceeds from the sale of the Series of 1996 Bonds were used, together with monies available in certain of the separate accounts established under the 1994 Indenture on account of the 1992 Bonds and the 1994 Bonds to (i) provide for the advance Refunding of the Authority's Special Tax Revenue Bonds Series of 1992 outstanding as of May 15, 1996 in the aggregate principal amount of $304,160,000 and the Authority's Special Tax Revenue Bonds Series of 1994 outstanding as of May 15, 1996 in the aggregate principal amount of $120,180,000, (ii) pay the premium for a Debt Service Reserve Fund Insurance Policy in the amount of $35,004,944 to satisfy the Debt Service Reserve Fund Requirements in respect of the Series of 1996 Bonds which amount is equal to ten percent (10%) of the proceeds of the Series of 1996 Bonds, and (iii) pay the costs of issuing the Series of 1996 Bonds.

The details of Series of 1996 Bonds outstanding at June 30, 1996 are as follows:

Interest Rate	Maturing June 15	Amount
5.000 %	1997	$ 33,365,000
5.000	1998	36,635,000
5.750	1999	38,465,000
5.750	2000	40,680,000
6.000	2001	43,015,000
6.000	2002	45,800,000
4.850	2003	3,430,000
6.000	2004	3,590,000
6.000	2005	3,890,000
6.000	2006	4,200,000
5.200	2007	4,450,000
5.300	2008	4,680,000
5.400	2009	4,930,000
5.500	2010	5,200,000
5.500	2011	5,480,000
5.600	2012	5,785,000
5.625	2013	6,105,000
5.500	2016	20,440,000
5.500	2020	32,890,000
Total		$343,030,000

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 1996 bonds outstanding at June 30, 1996.

Fiscal Year Ending	Principal or Sinking Fund Requirements	Interest	Total Debt Service Requirements
1997	$33,365,000	$20,778,841	$54,143,841
1998	36,635,000	17,512,219	54,147,219
1999	38,465,000	15,680,469	54,145,469
2000	40,680,000	13,468,731	54,148,731
2001	43,015,000	11,129,631	54,144,631
2002	45,800,000	8,548,731	54,348,731
2003	3,430,000	5,800,731	9,230,731
2004	3,590,000	5,634,376	9,224,376
2005	3,890,000	5,418,976	9,308,976
2006	4,200,000	5,185,576	9,385,576
2007	4,450,000	4,933,576	9,383,576
2008	4,680,000	4,702,176	9,382,176
2009	4,930,000	4,454,136	9,384,136
2010	5,200,000	4,187,916	9,387,916
2011	5,480,000	3,901,916	9,381,916
2012	5,785,000	3,600,516	9,385,516
2013	6,105,000	3,276,556	9,381,556
2014	6,450,000	2,933,150	9,383,150
2015	6,810,000	2,578,400	9,388,400
2016	7,180,000	2,203,850	9,383,850
2017	7,575,000	1,808,950	9,383,950
2018	7,990,000	1,392,325	9,382,325
2019	8,430,000	952,875	9,382,875
2020	8,895,000	489,225	9,384,225

The following is an analysis of the Series of 1996 bond proceeds and their disposition at June 30, 1996:

Net proceeds from issuance of Series of 1996 Bonds:	
Principal amount of Series of 1996 Bonds	$343,030,000
Original issue premium (net)	7,019,442
Accrued interest to settlement	799,186
Underwriters' discount	(2,140,507)
Total	$348,708,121

Disposition of net proceeds from issuance of 1996 Bonds:		
Payment to Refunded Debt Escrow Agent		$345,133,007
Transfer to Debt Service Fund for accrued interest		799,186
Debt Issuance costs-incurred:		
Premium Municipal Bond Insurance	$1,184,649	
Premium Debt Service Reserve Fund Insurance	472,567	
Professional fees and expenses	853,645	
Total		2,510,861
Debt issuance costs - obligated		265,067
Total		$348,708,121

4. REFUNDED 1992 BONDS - 1992 BONDS ESCROW FUND

A portion of the proceeds of the Series of 1993A Bonds was deposited into an irrevocable trust fund (the "1992 Bonds Escrow Fund") established and held by Meridian Bank, as escrow agent (the "Escrow Agent"), under and pursuant to the terms of an escrow deposit agreement, dated as of August 15, 1993 (the "Escrow Deposit Agreement") between the Authority and the Escrow Agent. The 1992 Bonds Escrow Fund is required to be invested in Government Obligations (as defined in the Indenture). Moneys in the 1992 Bonds Escrow Fund shall be used to provide for the advance refunding of the Series of 1992 Bonds of the maturities set forth in the following table in the aggregate principal amount of $136,670,000 (the "Refunded 1992 Bonds"):

Maturities June 15	Par Amount
2006	$15,140,000
2012	31,535,000
2022	89,995,000

The Escrow Agent shall use the moneys in the 1992 Bonds Escrow Fund to pay interest on the Refunded 1992 Bonds to June 15, 2002 and to redeem and pay on June 15, 2002, at a redemption price of 100%, the principal of the Refunded 1992 Bonds then outstanding.

At June 30, 1996, the 1992 Bonds Escrow Fund held cash and United States Treasury securities (at cost) in the amount of $140,187,799 for the previously stated purpose. The maturing principal and interest on the securities held in escrow have been verified as being sufficient to provide for the payment of the interest and redemption prices of the Refunded 1992 Bonds on their scheduled redemption dates through June 15, 2002.

5. REFUNDED 1992 AND 1994 BONDS - 1996 REFUNDED BONDS ESCROW FUND

Proceeds of the Series of 1996 Bonds, together with certain funds held by the Trustee on account of the Series of 1992 Bonds and the Series of 1994 Bonds and the proceeds of certain forward supply agreements entered into utilizing portions of the proceeding funds (the 1992, 1994 and 1996 proceeds supply agreements) were deposited into an irrevocable trust fund (the "1996 Refunded Bonds Escrow Fund") established and held by Meridian Bank, as escrow agent (the "Escrow Agent"), under and pursuant to the terms of an escrow deposit agreement, dated as of May 15, 1996 (the "Escrow Deposit Agreement") between the Authority and the Escrow Agent. The 1996 Refunded Bonds Escrow Fund is required to be invested in Government Obligations (as defined in the Indenture). Moneys in the 1996

Refunded Bonds Escrow Fund shall be used to pay when due (a) the principal of and interest on the 1992 Refunded Bonds as the same become due and payable from the date of the Escrow Deposit Agreement to and including June 15, 2002, and (b) the principal of and interest on the 1994 Refunded Bonds as the same shall become due and payable from the date of the Escrow Deposit Agreement to and including June 15, 2005 (the "1994 Bonds Redemption Date") and to pay on the 1994 Bonds Redemption Date the Redemption Price (100% of principal amount) of the outstanding 1994 Refunded Bonds maturing after that date plus accrued interest on that date.

The following table sets forth the 1992 Refunded Bonds ($304,160,000 aggregate amount) and the 1994 Refunded Bonds ($120,180,000 aggregate amount) which were advance refunded through establishment of the 1996 Refunded Bonds Escrow Fund:

Maturing June 15	Par Amount Series of 1992	Par Amount Series of 1994
1996	$ 36,765,000	$ 1,935,000
1997	38,670,000	2,035,000
1998	40,765,000	2,145,000
1999	43,045,000	2,265,000
2000	45,520,000	2,395,000
2001	48,250,000	2,535,000
2002	51,145,000	2,685,000
2003		2,850,000
2004		3,025,000
2005		98,310,000*

* Includes redemption of all Bonds maturing 2006 through 2021.

The Authority's refunding of the outstanding principal amounts of the Series of 1992 and Series of 1994 Bonds reduced its future aggregate debt service payments by approximately $26,710,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately $2,589,000.

At June 30, 1996, the 1996 Refunded Bonds Escrow Fund, which had provided for payment of the principal and interest due on the Refunded Bonds on June 15, 1996, held cash and United States Treasury Securities (at cost) in the amount of $401,058,203 for payment of its obligations after that date. The maturing principal and interest on the securities held in escrow have been verified as being sufficient to provide for the payment of the principal of, interest on and redemption price of the Refunded Bonds on their scheduled maturity and redemption dates.

6. DEFINED BENEFIT PENSION PLAN

Plan Description - The Authority covers all full-time employees in the State Employees' Retirement System (the "System"), which is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Pennsylvania 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 employees classified in hazardous duty positions 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.

The Authority's 1996 total and annual covered payroll was $404,258.

Contributions Required - Covered employees are required to contribute to the System at a rate of 5% of their gross pay. The contributions are recorded in an individually identified account which is also credited with interest, calculated quarterly to yield 4% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

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 participants.

The Authority's 1996 total contribution to the System was $34,849. The Authority's actuarially determined contribution requirement represents less than .01% of the total actuarially determined contribution requirement for the System.

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, 1995. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 3.3% per year compounded annually, attributable to inflation, (c) additional projected salary increases of approximately 3.5%, attributable to merit/promotion, and (d) no post-retirement benefit increases.

The pension benefit obligation of the System at December 31, 1995 (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	$ 5,715,086
Current employees:	
Accumulated employee contributions	2,468,148
Employer-financed, vested	6,004,866
Employer-financed, nonvested	559,013
Total pension benefit obligation	14,747,113
Net assets available for benefits, at fair value	16,344,715
Net assets in excess of pension benefit obligation	$ 1,597,602

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 1995 financial statements. The ten-year summary is presented for purposes of additional analysis of System progress in accumulating sufficient assets to pay benefits when due.

7. LEASE OBLIGATIONS

The Authority is obligated under various operating leases, including a five-year lease for office space commencing 1996. The following is a schedule of all minimum lease payments:

1997	$ 67,962
1998	67,962
1999	67,962
2000	67,962
2001	33,450
	$305,298

Rental expense for the year ended June 30, 1996 was $70,675.

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PENNSYLVANIA INTERGOVERNMENTAL COOPERATIVE AUTHORITY

SUPPLEMENTAL COMBINING BALANCE SHEET - ALL DEBT SERVICE FUNDS
JUNE 30, 1996

ASSETS	Debt Service Fund					Debt Service Reserve Fund				Rebate Fund	Total
	1992	1993	1993A	1994	1996	1992	1993	1993A	1994	1993A	
Current assets:											
Cash and short-term investments	$6,115,660	$3,644,080	$770,595	$1,161,674	$4,645,184	$ 7,067	$64,253,850	$13,968,196	$ 1,384	$ 857,260	$ 95,424,950
Accrued interest receivable	11,539	11,288	2,507	2,195	3,782	27	195,165	63,577	5	1,394	291,479
TOTAL ASSETS	$6,127,199	$3,655,368	$773,102	$1,163,869	$4,648,966	$ 7,094	$64,449,015	$14,031,773	$ 1,389	$ 858,654	$ 95,716,429
LIABILITIES AND FUND EQUITY											
Current liabilities - interfund payable - due to Special Revenue Fund	$6,127,199			$1,163,869		$ 7,094	$ 195,165	$ 516,273	$ 1,389		$ 8,010,989
Fund equity:											
Fund balances reserved for:											
Debt service		$3,655,368	$773,102		$4,648,966		63,324,850	13,515,500		$ 858,654	86,776,440
Subsequent PICA administration							929,000				929,000
TOTAL LIABILITIES AND FUND EQUITY	$6,127,199	$3,655,368	$773,102	$1,163,869	$4,648,966	$ 7,094	$64,449,015	$14,031,773	$ 1,389	$ 858,654	$ 95,716,429

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - ALL DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 1996

	Debt Service Fund					Debt Service Reserve Fund				Rebate Fund	
	1992	1993	1993A	1994	1996	1992	1993	1993A	1994	1993A	Total
Revenues - interest earned on investments	$ 1,399,065	$ 791,946	$ 170,392	$ 160,828	$ 12,016	$ 3,928,952	$ 3,896,913	$ 1,674,329	$ 850,672	$ 3,254	$ 12,888,367
Expenditures:											
Principal		8,605,000	1,425,000								10,030,000
Interest	8,726,394	34,266,644	8,656,290	3,999,893							55,649,221
Payment to refunded debt escrow agent	39,377,287			4,773,425		49,850,900			10,448,880		104,450,492
Total expenditures	48,103,681	42,871,644	10,081,290	8,773,318		49,850,900			10,448,880		170,129,713
Excess of revenues over (under) expenditures	(46,704,616)	(42,079,698)	(9,910,898)	(8,612,490)	12,016	(45,921,948)	3,896,913	1,674,329	(9,598,208)	3,254	(157,241,346)
Other financing sources (uses) - operating transfers in (out)	42,173,056	42,152,579	9,841,849	7,782,546	4,636,950	(2,099,430)	(2,967,913)	(1,674,329)	(336,992)	855,400	100,363,716
Excess of revenues and other sources over (under) expenditures and other uses	(4,531,560)	72,881	(69,049)	(829,944)	4,648,966	(48,021,378)	929,000		(9,935,200)	858,654	(56,877,630)
BEGINNING FUND BALANCES, JULY 1, 1995	4,531,560	3,582,487	842,151	829,944		48,021,378	63,324,850	13,515,500	9,935,200		144,583,070
ENDING FUND BALANCES, JUNE 30, 1996	$ -	$ 3,655,368	$ 773,102	$ -	$ 4,648,966	$ -	$64,253,850	$13,515,500	$ -	$ 858,654	$ 87,705,440

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

SUPPLEMENTAL COMBINING BALANCE SHEET - ALL EXPENDABLE TRUST FUNDS
JUNE 30, 1996

ASSETS	Capital Projects Fund 1992	1993	1994	Total	Settlement Fund 1996	Total
Current assets:						
Cash and short-term investments	$32,854,572	$22,056,164	$47,388,054	$102,298,790	$ 265,117	$102,563,907
Accrued interest receivable	149,428	106,735	135,895	392,058	1,232	393,290
TOTAL ASSETS	$33,004,000	$22,162,899	$47,523,949	$102,690,848	$ 266,349	$102,957,197
FUND BALANCES						
Reserved for benefit of the City of Philadelphia	$33,004,000	$22,162,899	$47,523,949	$102,690,848	$ 266,349	$102,957,197
TOTAL FUND EQUITY	$33,004,000	$22,162,899	$47,523,949	$102,690,848	$ 266,349	$102,957,197

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - ALL EXPENDABLE TRUST FUNDS
YEAR ENDED JUNE 30, 1996

	Capital Projects Fund				Settlement Fund	
	1992	1993	1994	Total	1996	Total
Revenues - interest earned on investments	$ 2,311,553	$ 1,752,701	$ 4,467,420	$ 8,531,674	$ 1,282	$ 8,532,956
Expenditures:						
Grants to the City of Philadelphia for approved capital projects	5,891,028	10,454,765	44,961,501	61,307,294		61,307,294
Debt issuance costs					2,510,861	2,510,861
Total expenditures	5,891,028	10,454,765	44,961,501	61,307,294	2,510,861	63,818,155
Excess of revenues under expenditures	(3,579,475)	(8,702,064)	(40,494,081)	(52,775,620)	(2,509,579)	(55,285,199)
Other financing sources (uses):						
Proceeds from debt issuance for PICA debt refunding					348,708,121	348,708,121
Payment to refunded debt escrow agent					(345,133,007)	(345,133,007)
Operating transfers in (out)					(799,186)	(799,186)
Total other financing sources (uses)					2,775,928	2,775,928
Excess of revenues and other sources over (under) expenditures and other uses	(3,579,475)	(8,702,064)	(40,494,081)	(52,775,620)	266,349	(52,509,271)
BEGINNING FUND BALANCES, JULY 1, 1995	36,583,475	30,864,963	88,018,030	155,466,468		155,466,468
ENDING FUND BALANCES, JUNE 30, 1996	$33,004,000	$22,162,899	$ 47,523,949	$ 102,690,848	$ 266,349	$ 102,957,197

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

GENERAL FUND

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 1996

	Budget	Actual	Over (Under) Budget
Revenues - interest earnings	$ 24,199	$ 49,705	$ 25,506
Expenditures:			
Personnel - salaries and benefits	536,717	523,983	(12,734)
Professional services:			
Legal	50,000	4,291	(45,709)
Audit	33,500	33,500	
Consulting/research	20,000	170	(19,830)
Interagency services	1,500		(1,500)
Trustee and bond issuance miscellaneous	90,000	39,882	(50,118)
Other:			
Rent	84,000	69,661	(14,339)
Computer software and minor hardware	7,500	3,107	(4,393)
Office supplies	5,000	6,998	1,998
Telephone	7,500	6,582	(918)
Subscriptions and reference services	5,000	2,979	(2,021)
Postage and express	15,000	5,670	(9,330)
Dues and professional education	10,000	6,179	(3,821)
Travel	5,000	3,017	(1,983)
General and administrative	12,500	7,652	(4,848)
Miscellaneous	12,500	12,185	(315)
Capital outlay - furniture, fixtures and equipment	10,000	20,243	10,243
Total - administration	905,717	746,099	(159,618)
Excess of expenditures over revenues	(881,518)	(696,394)	(185,124)
Other financing sources - transfers in - PICA draw for operations	486,500	486,500	
Excess of expenditures over revenues and other financing sources	(395,018)	(209,894)	(185,124)
BEGINNING FUND BALANCE, JULY 1, 1995	692,111	692,111	
ENDING FUND BALANCE, JUNE 30, 1996	$ 297,093	$ 482,217	$ 185,124

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

GENERAL FUND

SUPPLEMENTAL STATEMENT OF CASH ACTIVITY
YEAR ENDED JUNE 30, 1996

Cash receipts:	
Revenues collected - interest	$ 49,987
Other financing sources - operating transfers in from interest earnings on Debt Service Funds	486,500
Total cash receipts	536,487
Cash disbursements - expenditures paid - administration	720,541
Excess of cash disbursements over cash receipts	(184,054)
CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1995	828,682
CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1996	$ 644,628

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

SPECIAL REVENUE FUND

SUPPLEMENTAL STATEMENT OF CASH ACTIVITY
YEAR ENDED JUNE 30, 1996

Cash receipts:	
Revenues collected:	
PICA taxes	$218,794,897
Interest	229,769
Other financing sources - operating transfers in from interest earnings on Debt Service Funds	7,852,961
Total cash receipts	226,877,627
Cash disbursements:	
Expenditures paid - grants to the City of Philadelphia	111,353,099
Other financing uses - operating transfers out for debt service requirements	115,515,375
Total cash disbursements	226,868,474
EXCESS OF CASH RECEIPTS OVER CASH DISBURSEMENTS	9,153
CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1995	
CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1996	$ 9,153