

**Pennsylvania Intergovernmental
Cooperation Authority**

1500 Walnut Street, Suite 1600, Philadelphia, PA 19102
Telephone 215-561-9160 Fax 215-563-2570

February 20, 2009

Honorable Michael Nutter, Mayor
Office of the Mayor
City Hall, Room 215
Philadelphia, PA 19107-2180

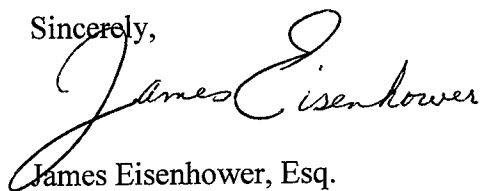
Dear Mayor Nutter:

We are in receipt of the City of Philadelphia's Quarterly City Managers Report (QCMR) for the period ending December 31, 2008. The QCMR reflects a projected operating budget deficit and negative fund balance for the current fiscal year (FY2009) of such a significance and magnitude as to constitute a "Variance" as defined in Section 4.10(a) of the Intergovernmental Cooperation Agreement, dated as of January 8, 1992 (the "Cooperation Agreement"), between the City and the Pennsylvania Intergovernmental Cooperation Authority (the "Authority"). This letter constitutes formal notice from the Authority to the City of the existence of such a Variance pursuant to Section 4.10(a) of the Cooperation Agreement.

Under Section 4.10(b) of the Cooperation Agreement, the City is required to submit a written explanation of the Variance within 30 days of receipt of this notification, and is required to propose remedial action to address this Variance within 45 days of receipt of this notification. The Cooperation Agreement also requires that following the determination by the Authority that a Variance has occurred, the City must provide monthly reports on revenues and obligations. We acknowledge that the City has already begun to provide such monthly reports.

I look forward to the continued cooperation with your administration in developing a Plan which closes the existing shortfall for the current fiscal year, as well projecting balanced budgets for the next five years using reasonable assumptions. If you have any concerns or questions, please feel free to contact me at your convenience.

Sincerely,



James Eisenhower, Esq.
Chair, PICA Board

C: PICA Board (Via E-mail)
Anna Verna, City Council President (Via Hand Delivery)
Alan Butkovitz, City Controller (Via Hand Delivery)
Uri Monson, Executive Director, PICA (Via E-mail)