

# **Pennsylvania Intergovernmental Cooperation Authority**



**Annual Report  
for  
Fiscal Year 1999**

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**October 19, 1999**

**PENNSYLVANIA INTERGOVERNMENTAL  
COOPERATION AUTHORITY**

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**Board of Directors**

Governor’s Appointment

(Vacant)

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Vice Chairperson

William J. Leonard, Esquire

Treasurer/Secretary

Gregg R. Melinson, Esquire

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City of Philadelphia

Ben Hayllar  
Director of Finance

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Peter Geleta ..... Deputy Executive Director  
David M. Nerenberg ..... Director of Budgetary Analysis  
Anthony P. Ingargiola ..... Director of Capital Analysis and Operations  
Harvey M. Rice, Esquire ..... Assistant to the Executive Director  
Lisa W. Gallagher ..... Administrative Assistant  
Deidre A. Morgenstern ..... Special Assistant  
Kim Richardson ..... Secretary/Receptionist

**Professional Advisors**

Authority Counsel

Reed Smith Shaw & McClay, LLP

Independent Auditors

Deloitte & Touche, LLP

## The Mission of the Authority

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

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

*Legislative intent.--*

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

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

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

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

*(A) increased managerial accountability;*

*(B) consolidation or elimination of inefficient city programs;*

*(C) recertification of tax-exempt properties;*

*(D) increased collection of existing tax revenues;*

*(E) privatization of appropriate city services;*

*(F) sale of city assets as appropriate;*

*(G) improvement of procurement practices including competitive*

*bidding procedures; and*

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

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

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

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

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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

	<u>Page</u>
Transmittal Letter	iv
PICA Annual Report Requirements	v
Overview - PICA and its Role	1
The Work of PICA - Fiscal Year 1999	6
Goals for PICA - Fiscal Year 2000	9
Future City Reporting to PICA	11
Management Discussion of Financial Operations	13
Appendix A: Financial Statements and Report of Independent Auditors	

October 19, 1999

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, 1999 (“FY99”), PICA’s eighth year of operations.

PICA’s role in the ongoing City of Philadelphia (“City”) financial recovery continues to be significant. FY99 activity included (1) the approval of a Five-Year Financial Plan for Fiscal Years 2000 through 2004 which anticipates balanced budgets and tax reductions in each component year; (2) monitoring ongoing Five-Year Financial Plan compliance; (3) continuing review and monitoring of the City’s operations; (4) oversight as to utilization of remainder moneys borrowed by PICA for City capital projects, productivity enhancements and indemnity costs (deficit reduction); and (5) service as the primary independent source of objective information and opinion for the benefit of the citizens of the City and the Commonwealth as well as for the media, the financial community and other outside observers.

PICA has taken all known necessary actions to preclude any in-house computer problems arising as a result of the advent of fiscal year 2000 and continues to closely monitor the City’s efforts to timely become Year 2000 compliant.

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.

Lauri A. Kavulich, Esquire  
Esquire

William J. Leonard,

Gregg R. Melinson, Esquire

Arnold S. Hoffman

## **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. At that time 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 verged on bankruptcy. PICA was created through the joint efforts of concerned Philadelphians and State officials who envisioned a structure which would assist the City in putting its revenue collection and spending processes in order, and at the same time 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 eight, is organized to evaluate the actions of the City and to issue appropriate reports thereon to assist those who are properly charged with administration of City affairs or development of underlying policies.

## **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 \$1,116 million to directly assist the City, allocated to the following purposes:

<u>Purpose</u>	<u>Amount (thousands)</u>
Deficit Elimination/Indemnities Funding	\$ 256,200
Productivity Bank	20,000
Capital Projects	459,469
Retirement of Certain High Interest City Debt	<u>381,300</u>
TOTAL	<u>\$1,116,967</u>

### **The Five-Year Financial Plan Process**

PICA has consistently emphasized its firm belief that the City's continuing fiscal rehabilitation is dependent upon its continuing 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 are matters which the City must continue to focus upon in order to assure that its considerable assets continue to be applied intelligently and consistently. The Plan process helps to document the City's intentions and the results of its actions.

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

- o 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
- o 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 deal with a continuing 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 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 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 is currently in a position to promptly assist in the matter of School District of Philadelphia assistance and oversight as has been suggested, but not yet requested, by the Pennsylvania Courts and Legislature.

## **The Work of PICA - Fiscal Year 1999**

### **Approval of the FY2000-FY2004 Plan**

Review and recommendation for approval of the City's FY2000-FY2004 Five-Year Financial Plan was a major component of PICA Staff activities during the 1999 fiscal year. A significant concern expressed by PICA Staff is that 90% of the time period covered by the approved Plan will occur under an unknown successor administration; and of \$195 million in quantifiable risks to the Plan identified in the Staff Report on the Plan at least \$176 million will not affect the City until after the successor administration takes office. Further, although there is no way to project potential costs associated with new labor contracts expected to take effect in FY2001, the Plan makes no specific provision for any increases that may result from such contracts. The Plan does indicate that the latest round of labor contracts will have cost the City \$233.5 million over their first four years.

PICA Staff's comprehensive review of the Plan included assessment of the reasonableness of Plan revenue projections. The approved Plan proposes continued annual cuts in wage and earnings, net profits and business privilege taxes. Estimates of the impact of the tax cuts on revenues were carefully weighed during the review process.

A continuing concern which, except for the fortuitous initiation of legal action by the First Judicial District of Pennsylvania (FJDP), could have resulted in a PICA Staff recommendation for disapproval of the Plan is the City's militant stance against initially appropriating FJDP funding. PICA Staff considers that stance to place at risk a vital government function and cautions that a continuing policy of brinkmanship in this area could possibly jeopardize a future Plan approval.

The Staff Report on the City of Philadelphia's Five-Year Financial Plan for Fiscal Year 2000-Fiscal Year 2004, dated June 15, 1999 and comprising 88 pages, is available on request.

### **PICA 1999 Refunding Bond Issue**

In April of 1999, PICA issued its Series of 1999 Special Tax Revenue Refunding Bonds in the amount of \$610,005,000. These bonds were issued, in part, to refund all of the Authority's outstanding Series of 1993 Bonds (\$610,730,000 par amount refunded) while also modifying PICA's Debt Service Reserve Fund Requirement to equal the maximum annual debt service on all bonds outstanding, or such lesser amount as provided by the Internal Revenue Code. The new debt service requirement is equal to the maximum annual debt service on all of PICA's outstanding bonds, including the Series of 1993A, Series of 1996 and Series of 1999 bonds; and the need for separate debt service reserve funds (by bond issue) has been eliminated.

The issuance of the Series of 1999 Special Tax Revenue Refunding Bonds, which bore interest rates ranging from 3.20% to 5.25% (1999-2023) resulted in reducing PICA's debt service costs by more than \$26 million over the life of the Series of 1999 Bonds. On a present value basis this savings equates to approximately 3.07% of the Series of 1993 par amount refunded.

## **Strategic Planning**

PICA has consistently urged the City to undertake a strategic planning process, both to assist in institutionalizing the management reforms that have been implemented to date and to promote further changes in the fundamental operations of City government that will help maintain fiscal stability over the long term. The City responded with a process that resulted in a Strategic Plan for City government as a whole, published as an appendix to the FY1996-FY2000 Plan. That Citywide Strategic Plan served as a comprehensive statement of the issues facing City government and the general strategies and action steps that the City expected 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 need to produce strategic plans that translate the Citywide plan into specific departmental actions and measurable goals.

Based on the lack of completed departmental strategic plans to date and PICA Staff's previous criticisms of the process, it is apparent that strategic planning is not a priority for the current administration. Although the City has lost an opportunity to chart the City's course into the next century, PICA will continue to press the next administration to focus on strategic planning as a valuable management tool.

## **City Capital Program**

Oversight of the capital program continued to be a key element of PICA's work in FY99. The City continues to make progress in its scheduling and monitoring of capital project activities. In addition, new systems have enabled improved monitoring of budget, encumbrance and expenditure information by project. PICA Staff continues to review City developments in this area.

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 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. Preventive maintenance inadequacies in the past led to substandard City facilities, with direct impacts on service levels, and eventual use of limited capital dollars as maintenance problems deteriorated over time into major capital repair requirements. To prevent such occurrences in the future, PICA Staff believes that the City must consolidate separate facility maintenance units located within the various City departments and move toward a Citywide facility maintenance program.

While there have been improvements in preventive maintenance, further progress is needed to ensure that facilities are maintained at acceptable standards and that the level of City maintenance investment is sufficient to minimize 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 FY99. 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. There are still reasons for concern about the City's economy and the impact it will have on the City's future financial stability. For this reason, PICA continues to stress the need for the City to emphasize economic stimulus and address the problems of businesses that result 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 FY2000-FY2004 Plan are a major step toward addressing this problem. However, even with the implementation of the tax reductions, significant tax differentials will remain between the City and competing locations in the suburbs and elsewhere. While State and Federal policies drive much of the tax differential, the City government can still do much to promote a more competitive tax structure. The City can further increase productivity, cut costs, improve tax enforcement and make appropriate changes in the levels and mix of City services provided, consistent with a strategic plan. PICA Staff continues to press for such results.

## **Indemnities**

During FY99, the City did not draw funds from the Special Indemnity Accounts that were created with PICA bond proceeds that were not needed to finance initially projected deficits. As of June 30, 1999, in excess of \$11.2 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.

## **White Paper Project**

PICA Staff issued a fifth "White Paper" in November 1998 under the title "Caution: Severe Threats to Philadelphia's Fund Balance Ahead" which discussed the risks and uncertainties confronting the City that threaten its future fiscal health. It concluded that the City direly needs to continue making Philadelphia a more competitive place to live, work and visit by further enhancing services, reducing taxes, investing in economic growth and improving public schools; that the City should not view its accumulated positive General Fund balance as a funding source for such initiatives; and that it should instead maintain a fiscal cushion that will ensure continued budgetary balance.

## **Goals for PICA - Fiscal Year 2000**

### **Ongoing Goals**

During the next fiscal year, PICA Staff will continue to:

- o Focus on the need for City departments and agencies to produce strategic plans which delineate specific actions to be undertaken and measurable goals to be achieved that assist in attaining the goals of the Citywide Plan.
- o Promote the further development and use of departmental performance measures that contribute to a better understanding of and capacity to manage departmental activities.
- o Oversee PICA-funded City capital projects, stressing essential improvements to the City's capital project management and the benefits derivable from coordinated strategic and capital planning.
- o Encourage the implementation of a consolidated Citywide facility maintenance program.

### **Mayoral Transition**

In conjunction with the mayoral transition in January 2000, PICA Staff will focus on ensuring that there will be no lapse in the flow of information PICA requires to fulfill its mission. PICA Staff will work with the new administration to both maintain and strengthen the positive managerial and structural changes made by the Rendell Administration.

### **Plan Approval Goal**

PICA Staff looks forward to the FY2000 review of the City's Five-Year Financial Plan, Fiscal Year 2001-Fiscal Year 2005 (including Fiscal Year 2000), with the help of the professional staff of the City Controller. That Plan, the first to be produced by the next administration, will need to provide reasonable revenue and expenditure projections and reasonable prospects for continued General Fund balance.

### **Philadelphia Gas Works**

The Philadelphia Gas Works (PGW) continues to confront numerous financial and managerial challenges. Thin financial resources threaten its ongoing ability to make scheduled annual \$18 million payments to the City's General Fund. The prospects of deregulation and competition threaten its long-term ability to continue being economically viable. PICA Staff anticipates a more significant involvement in the resolution of present uncertainties as to PGW's future.

## **The School District of Philadelphia**

The possibility of PICA being of substantial assistance to both the Commonwealth of Pennsylvania and the City of Philadelphia in the matter of School District financial oversight, as was originally proposed by the Courts several years ago, has again become a matter of legislative discussions. That opportunity and the challenges it would present would be welcomed by PICA Staff and would immediately become a top priority item for the 21<sup>st</sup> century.

## **Overall Goal**

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



## **Future City Reporting to PICA**

### **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. This 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 information being provided to it. PICA Staff anticipates working closely with the new administration to ensure that there is no lapse in the flow of information PICA requires to fulfill its mission.

### **Data to be Received by PICA Includes:**

**Revised Plan.** The PICA Act and the Cooperation Agreement contemplate the continuous existence of a Plan encompassing the current fiscal year and the four fiscal years thereafter, and require that a new year be added to the then-existing Plan not later than 100 days prior to the end of each fiscal year. The City's Five-Year Financial Plan, Fiscal Year 2001-Fiscal Year 2005 (including Fiscal Year 2000) is thus anticipated to be received by PICA by March 22, 2000.

**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.

**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 FY2000 Reporting Requirements

<b>Due Date</b>	<b>Description</b>
October 20, 1999	Receipt of 1st Quarter FY2000 Grants Revenue Fund Contingency Account Report
November 1, 1999	Receipt of 3rd Quarter FY2000 Prospective Debt Service Requirements Report
November 15, 1999	Receipt of 1st Quarter FY2000 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
January 20, 2000	Receipt of 2nd Quarter FY2000 Grants Revenue Fund Contingency Account Report
February 1, 2000	Receipt of 4th Quarter FY2000 Prospective Debt Service Requirements Report
February 15, 2000	Receipt of 2nd Quarter FY2000 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
March 22, 2000	Submission of proposed revision to Plan and addition of FY2005
April 20, 2000	Receipt of 3rd Quarter FY2000 Grants Revenue Fund Contingency Account Report
May 2, 2000	Receipt of 1st Quarter FY2001 Prospective Debt Service Requirements Report
May 15, 2000	Receipt of 3rd Quarter FY2000 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
July 20, 2000	Receipt of 4th Quarter FY2000 Grants Revenue Fund Contingency Account Report
August 2, 2000	Receipt of 2nd Quarter FY2001 Prospective Debt Service Requirements Report
August 15, 2000	Receipt of 4th Quarter FY2000 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld

## Management Discussion of Financial Operations

### General Fund

All FY99 administration expenses of the Authority were funded from Authority earnings on its General Fund and on its Debt Service Reserve Fund (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 FY99, nor are any expected to be used in FY2000 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, 1999 and as to the FY2000 budget are as follows:

#### Anticipated Residual Fund Balance:

Fund Balance at June 30, 1998	\$ 593,949
Less: Fund Balance Utilized in FY99 Budget	<u>211,676</u>
Anticipated Fund Balance at June 30, 1999	382,273
Less: Fund Balance Utilized in FY2000 Budget	<u>157,853</u>
Anticipated Residual Fund Balance at June 30, 2000	<u>\$ 224,420</u>

#### Fund Balance at June 30, 1999 (Anticipated/Actual):

Anticipated Fund Balance at June 30, 1999	\$ 382,273
Add: Net FY99 "Better than Budget" Operating Results	<u>39,672</u>
Actual Fund Balance at June 30, 1999	<u>\$ 421,945</u>

#### General Fund Budget for FY2000:

Revenues - General Fund Interest Earnings	\$ 34,547
Other Financing Sources:	
Utilization of Portion of Fund Balance	157,853
Transfer from Bond Issue Investment Earnings ("Reserved for subsequent PICA Administration" in the Debt Service Reserve Fund at June 30, 1999)	<u>1,090,000</u>
Total General Fund Budget for FY2000	<u>\$1,282,400</u>

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 Revenue 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 received in excess of \$259 thousand on its invested balances during FY99, and also received in excess of \$5,664 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 FY99 exceeded the equation (PICA taxes minus provision for PICA Debt Service/monthly basis = PICA grants to the City) by in excess of \$5,923 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, 1999, 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 12/15/99 and principal due 6/15/2000	\$ 8,994,984
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	<u>996,199</u>
Amount Reserved for Debt Service	\$86,831,533
Debt Service Reserve Fund -- Current assets held for subsequent PICA administration purposes (Debt Service Reserve Fund earnings held for PICA FY2000 operations – per adopted budget)	<u>1,090,000</u>
Fund Equity at June 30, 1999 -- Combined Debt Service Funds	<u><u>\$87,921,533</u></u>

### **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, 1999, sufficient PICA controlled capital projects funds were available to complete all of the PICA approved projects and an additional \$34,837 thousand of yet to be designated projects.

Capital project funds held for PICA capital project grants to the City of Philadelphia totaled \$86,649 thousand at June 30, 1999.

Expendable Trust Funds at June 30, 1999 also included \$9,193 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, 1999, such PICA provided funds as yet unexpended by the City included:

	<u>Amount</u> <u>(in thousands)</u>
Indemnity Fund	\$1,512
'95 Indemnity Fund	\$9,714
'92 Capital Projects Encumbered Funds	\$2,769
'93 Capital Projects Encumbered Funds	\$6,703
'93 Criminal Justice Project Encumbered Funds	\$1,572
'94 Capital Projects Encumbered Funds	\$6,889

### **General Fixed Assets**

The fixed assets of the Authority (leasehold improvements, furniture and equipment) are recorded at cost and their value totaled \$142,403 at June 30, 1999. Changes in fixed assets during Fiscal Year 1999 are summarized as follows:

Balance, July 1, 1998		\$135,182
Acquired-Computer System Hardware and Upgrades	\$13,100	
Disposed of-Outmoded Computer System Components	<u>5,879</u>	<u>7,221</u>

Balance, June 30, 1999

\$142,403

**General Long-Term Debt**

PICA's General Long-Term Debt Account Group activity for the year ended June 30, 1999 is summarized as follows:

	<u>Amount (in thousands)</u>
Outstanding Debt at July 1, 1998	\$1,054,995
Debt Issued	<u>610,005</u>
Total	1,665,000
Debt Retired	<u>650,905</u>
Outstanding Debt at June 30, 1999	<u>\$1,014,095</u>

**Appendix A:**  
**Financial Statements**  
**and**  
**Report of Independent Auditors**

# *Pennsylvania Intergovernmental Cooperation Authority*

*General Purpose Financial Statements,  
Required Supplementary Information  
and Supplemental Statements for the  
Year Ended June 30, 1999 and  
Independent Auditors' Report*



# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## TABLE OF CONTENTS

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
GENERAL PURPOSE FINANCIAL STATEMENTS AS OF JUNE 30, 1999 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	4-20
REQUIRED SUPPLEMENTARY INFORMATION	21
SUPPLEMENTAL STATEMENTS AS OF JUNE 30, 1999 AND FOR THE YEAR THEN ENDED:	
Combining Balance Sheet - All Debt Service Funds	22
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - All Debt Service Funds	23
Combining Balance Sheet - All Expendable Trust Funds	24
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - All Expendable Trust Funds	25
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	26
Statements of Cash Activity:	
General Fund	27
Special Revenue Fund	28

## **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, 1999 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 of the Pennsylvania Intergovernmental Cooperation Authority at June 30, 1999, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 21 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become year 2000 compliant.

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 are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. These supplemental statements are the responsibility of the Authority's management. 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.

**August 20, 1999**



**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**

**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1999**

	Governmental Fund Types			Fiduciary Fund Type Expendable Trust	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service		General Fixed Assets	General Long-Term Debt	
<b>ASSETS</b>							
CURRENT ASSETS:							
Cash and short-term investments	\$ 629,698		\$ 87,910,292	\$ 86,417,857			\$ 174,957,847
Accrued interest receivable	8,723	\$ 20,006	262,022	241,210			531,961
Interfund receivable		250,781					250,781
Total current assets	<u>638,421</u>	<u>270,787</u>	<u>88,172,314</u>	<u>86,659,067</u>			<u>175,740,589</u>
PROPERTY, PLANT AND EQUIPMENT - Office furniture and equipment					\$ 142,403		142,403
OTHER ASSETS - Prepaid rent and security deposit	11,940						11,940
AMOUNT AVAILABLE IN DEBT SERVICE FUNDS FOR RETIREMENT OF LONG-TERM DEBT						\$ 86,831,533	86,831,533
AMOUNT TO BE PROVIDED FOR RETIREMENT OF LONG-TERM DEBT						927,263,467	927,263,467
<b>TOTAL ASSETS</b>	<u>\$ 650,361</u>	<u>\$ 270,787</u>	<u>\$ 88,172,314</u>	<u>\$ 86,659,067</u>	<u>\$ 142,403</u>	<u>\$ 1,014,095,000</u>	<u>\$ 1,189,989,932</u>
<b>LIABILITIES AND FUND EQUITY</b>							
CURRENT LIABILITIES:							
Accounts payable	\$ 53,829						\$ 53,829
Accrued payroll and taxes	174,587						174,587
Due to the City of Philadelphia		\$ 270,787					270,787
Bonds payable - current portion						\$ 54,675,000	54,675,000
Interfund payable			\$ 250,781				250,781
Total current liabilities	<u>228,416</u>	<u>270,787</u>	<u>250,781</u>			<u>54,675,000</u>	<u>55,424,984</u>
BONDS PAYABLE - Long-term portion						959,420,000	959,420,000
FUND EQUITY:							
Fund balances:							
Unreserved	421,945						421,945
Reserved for debt service			86,831,533				86,831,533
Reserved for benefit of the City of Philadelphia				\$ 86,659,067			86,659,067
Reserved for subsequent PICA administration			1,090,000				1,090,000
Investment in general fixed assets					\$ 142,403		142,403
Total fund equity	<u>421,945</u>		<u>87,921,533</u>	<u>86,659,067</u>	<u>142,403</u>		<u>175,144,948</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 650,361</u>	<u>\$ 270,787</u>	<u>\$ 88,172,314</u>	<u>\$ 86,659,067</u>	<u>\$ 142,403</u>	<u>\$ 1,014,095,000</u>	<u>\$ 1,189,989,932</u>

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, 1999

	Governmental Fund Types			Fiduciary Fund Type Expendable Trust	Total (Memorandum Only)
	General	Special Revenue	Debt Service		
REVENUES:					
PICA Taxes		\$ 243,315,729			\$ 243,315,729
Interest earned on investments	\$ 52,662	272,345	\$ 6,688,494	\$ 4,708,130	11,721,631
Total revenues	<u>52,662</u>	<u>243,588,074</u>	<u>6,688,494</u>	<u>4,708,130</u>	<u>255,037,360</u>
EXPENDITURES:					
Grants to the City of Philadelphia (net of refunds of prior grants)		143,181,120		(1,998,957)	141,182,163
Debt service:					
Principal			40,175,000		40,175,000
Interest			47,051,415		47,051,415
Administration:					
Operations	1,091,566				1,091,566
Capital outlay	13,100				13,100
Debt issuance costs				956,779	956,779
Payments to refunded debt escrow agent			19,817,995		19,817,995
Total expenditures	<u>1,104,666</u>	<u>143,181,120</u>	<u>107,044,410</u>	<u>(1,042,178)</u>	<u>250,288,018</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,052,004)</u>	<u>100,406,954</u>	<u>(100,355,916)</u>	<u>5,750,308</u>	<u>4,749,342</u>
OTHER FINANCING SOURCES (USES) -					
Proceeds from debt issuance for PICA debt refunding				618,710,703	618,710,703
Payment to refunded debt escrow agent				(616,677,050)	(616,677,050)
Net operating transfers in (out)	880,000	(100,406,954)	100,710,718	(1,183,764)	
Total other financing sources (uses)	<u>880,000</u>	<u>(100,406,954)</u>	<u>100,710,718</u>	<u>849,889</u>	<u>2,033,653</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(172,004)</u>		<u>354,802</u>	<u>6,600,197</u>	<u>6,782,995</u>
BEGINNING FUND BALANCES, JULY 1, 1998	<u>593,949</u>		<u>87,566,731</u>	<u>80,058,870</u>	<u>168,219,550</u>
ENDING FUND BALANCES, JUNE 30, 1999	<u>\$ 421,945</u>	<u>\$ -</u>	<u>\$ 87,921,533</u>	<u>\$ 86,659,067</u>	<u>\$ 175,002,545</u>

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1999

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### 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 (see 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 (see 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 \$142,403 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.

Changes in general fixed assets during the fiscal year ended June 30, 1999 are summarized as follows:

Balance, July 1, 1998		\$ 135,182
Acquired (General Fund - capital outlay) - computer system hardware and upgrades	\$ 13,100	
Disposed of - outmoded computer system components	<u>5,879</u>	<u>7,221</u>
Balance, June 30, 1999		<u>\$ 142,403</u>

- 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, 1999 totaled \$100,815.

**Investments** - The Authority's investments are carried at cost (which approximates market) because of the nature of such investments.

**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, 1999, the carrying amount of the Authority's deposits with financial institutions (including certificates of deposit and shares in U.S. Government money market funds) was \$16,994,910. The bank balance of \$17,022,183 was insured or collateralized as follows:

Insured	\$ 100,000
Uninsured and uncollateralized, but covered under the provisions of Act 72, as amended	<u>16,922,183</u>
Total deposits	<u><u>\$ 17,022,183</u></u>

The following is a schedule of investments of the Authority by type (other than certificates of deposit and shares in U.S. Government money market funds) showing the carrying value and categorization as to credit risk at June 30, 1999:

	<b>Carrying Value</b>			
	<b>Total</b>	<b>Credit Risk Category</b>		
		<b>(1)</b>	<b>(2)</b>	<b>(3)</b>
Guaranteed investment contracts	\$ 81,122,587			\$ 81,122,587
Repurchase agreements	<u>76,840,350</u>			<u>76,840,350</u>
<b>Total investments</b>	<b><u>\$157,962,937</u></b>			<b><u>\$157,962,937</u></b>

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, 1999, deposits and investments of the Authority were similar to those on hand at June 30, 1999 with respect to credit risk.

The Authority's deposits include bank certificates of deposit that have a remaining maturity at time of purchase of one year or less and shares in U.S. Government money market funds. Investments consist of nonparticipating interest earning investment contracts and repurchase agreements with remaining maturities at the time of purchase of less than one year.

**3. SPECIAL TAX REVENUE BONDS**

Through June 30, 1999, the Authority issued six series of Special Tax Revenue Bonds, as follows:

<b>Series of</b>	<b>Amount Issued</b>
1992	\$474,555,000
1993	643,430,000
1993A	178,675,000
1994	122,020,000
1996	343,030,000
1999	610,005,000



Total annual debt service requirements (annual principal or sinking fund requirements and interest payments) on the outstanding bonds at June 30, 1999 are as follows:

<b>Fiscal Year Ending</b>	<b>Total Debt Service Requirements</b>
2000	\$ 107,071,149
2001	106,998,376
2002	107,298,476
2003	79,229,826
2004	76,391,709
2005	85,979,061
2006	86,123,509
2007	86,121,324
2008	80,455,926
2009	71,836,686
2010	65,010,966
2011	61,349,791
2012	61,332,279
2013	61,320,981
2014	61,299,075
2015	61,286,038
2016	61,253,475
2017	61,231,425
2018	52,108,063
2019	43,388,863
2020	43,386,138
2021	34,001,413
2022	33,999,413
2023	20,489,100

Details as to the purpose of each of the respective Series of bonds issued by the Authority to June 30, 1999 and as to bonds outstanding at that date follow.

**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 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, 1999, 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.

Series of 1993 Bonds in the aggregate principal amount of \$610,730,000, initially scheduled to mature June 15, 1999 through 2009, 2015, 2016 and 2023 were advance refunded on April 1, 1999 (the "Refunded 1993 Bonds") through an irrevocable trust created by using the net proceeds of the Series of 1999 Bonds together with monies on deposit with the Trustee on account of the refunded 1993 bonds. The Refunded 1993 Bonds are no longer deemed to be outstanding under the Trust Indenture (see Note 6).

**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, 1999 are as follows:

<b>Interest Rate</b>	<b>Maturing June 15</b>	<b>Amount</b>
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	<u>96,030,000</u>
<b>Total</b>		<u><u>\$ 170,540,000</u></u>

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, 1999:

<b>Fiscal Year Ending</b>	<b>Principal or Sinking Fund Requirements</b>	<b>Interest</b>	<b>Total Debt Service Requirements</b>
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 to be 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 to be 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, 1999 are as follows:

<b>Interest Rate</b>	<b>Maturing June 15</b>	<b>Amount</b>
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	<u>32,890,000</u>
<b>Total</b>		<b><u>\$234,565,000</u></b>

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, 1999.



<b>Fiscal Year Ending</b>	<b>Principal or Sinking Fund Requirements</b>	<b>Interest</b>	<b>Total Debt Service Requirements</b>
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

**F. Series of 1999**

The net proceeds from the sale of the Series of 1999 Bonds were to be used, together with other monies available in the Debt Service Fund of the 1993 Bonds, to (i) provide for the advance refunding of all of the Authority's Special Tax Revenue Bonds Series of 1993 outstanding as of April 1, 1999 and maturing June 15 of the years 1999 through 2009, 2015, 2016 and 2023, in the aggregate principal amount of \$610,730,000 (the "Refunded 1993 Bonds"), (ii) pay the premium for a Debt Service Reserve Fund Insurance Policy to help satisfy the Debt Service Reserve Requirements in respect of the 1993A, 1996, and 1999 bonds outstanding under the Indenture, equally and ratably, as per the amended provisions of the Trust Indenture with respect to "Debt Service Reserve Requirements," and (iii) pay the costs of issuing the Series of 1999 Bonds.

The details of Series of 1999 Bonds outstanding at June 30, 1999 are as follows:

<b>Interest Rate</b>	<b>Maturing June 15</b>	<b>Amount</b>
4.50 %	2000	\$ 13,260,000
5.00	2001	13,805,000
5.00	2002	14,600,000
5.00	2003	28,095,000
5.00	2004	26,670,000
4.00	2005	37,505,000
5.00	2006	39,075,000
5.00	2007	41,030,000
5.00	2008	37,420,000
5.00	2009	30,665,000
5.25	2010	25,370,000
5.25	2011	23,045,000
5.25	2012	24,235,000
5.25	2013	25,500,000
5.25	2014	26,815,000
5.25	2015	28,205,000
5.25	2016	29,660,000
5.25	2017	31,195,000
5.00	2018	23,710,000
4.75	2019	16,170,000
5.00	2021	34,725,000
4.75	2023	<u>38,235,000</u>
<b>Total</b>		<b><u>\$608,990,000</u></b>

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 1999 Bonds outstanding at June 30, 1999.

<b>Fiscal Year Ending</b>	<b>Principal or Sinking Fund Requirements</b>	<b>Interest</b>	<b>Total Debt Service Requirements</b>
2000	\$ 13,260,000	\$ 30,407,200	\$ 43,667,200
2001	13,805,000	29,810,500	43,615,500
2002	14,600,000	29,120,250	43,720,250
2003	28,095,000	28,390,250	56,485,250
2004	26,670,000	26,985,500	53,655,500
2005	37,505,000	25,652,000	63,157,000
2006	39,075,000	24,151,800	63,226,800
2007	41,030,000	22,198,050	63,228,050
2008	37,420,000	20,146,550	57,566,550
2009	30,665,000	18,275,550	48,940,550
2010	25,370,000	16,742,300	42,112,300
2011	23,045,000	15,410,375	38,455,375
2012	24,235,000	14,200,513	38,435,513
2013	25,500,000	12,928,175	38,428,175
2014	26,815,000	11,589,425	38,404,425
2015	28,205,000	10,181,638	38,386,638
2016	29,660,000	8,700,875	38,360,875
2017	31,195,000	7,143,725	38,338,725
2018	23,710,000	5,505,988	29,215,988
2019	16,170,000	4,320,488	20,490,488
2020	16,940,000	3,552,413	20,492,413
2021	17,785,000	2,705,413	20,490,413
2022	18,675,000	1,816,163	20,491,163
2023	19,560,000	929,100	20,489,100

The following is an analysis of the Series of 1999 bond proceeds and their disposition at June 30, 1999:

Principal amount of Series of 1999 Bonds	\$ 610,005,000
Net original issue premium	13,663,259
Accrued interest to settlement	<u>1,183,765</u>
Total proceeds	624,852,024
Less: Underwriters' discount	3,899,148
Bond issuance policy premium	2,013,737
Debt Service Reserve Fund Insurance Policy Premium	<u>228,436</u>
Net proceeds deposited to 1999 Settlement Fund	618,710,703
Residual balance of 1996 Settlement Fund transferred to 1999 Settlement Fund	116,324
Interest earnings on 1999 Settlement Fund	<u>479</u>
Total	618,827,506
Less: Payments to refunded debt escrow agent	616,677,050
Transfer of accrued interest to 1999 Debt Service Fund	1,183,764
Professional fees and expenses - debt issuance	<u>956,779</u>
1999 Settlement Fund Balance	<u>\$ 9,913</u>

#### 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") 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 its "Escrow Agent." First Union National Bank became the escrow agent during the fiscal year ended June 30, 1997. The 1992 Bonds Escrow Fund is required to be invested in Government Obligations (as defined in the Trust 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"):

<b>Maturities</b>	<b>Par</b>
<b>June 15</b>	<b>Amount</b>
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, 1999, the 1992 Bonds Escrow Fund held cash and United States Treasury securities (at market) in the amount of \$141,823,862 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") 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 its "Escrow Agent." First Union National Bank became the escrow agent during the fiscal year ended June 30, 1997. The 1996 Refunded Bonds Escrow Fund is required to be invested in Government Obligations (as defined in the Trust 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 sets forth the 1992 Refunded Bonds (\$144,915,000 aggregate amount) and the 1994 Refunded Bonds (\$111,800,000 aggregate amount) which remain advance refunded through establishment of the 1996 Refunded Bonds Escrow Fund:

	Par Amount	
	Series of 1992	Series of 1994
<b>Maturing June 15</b>		
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 and thereafter		98,310,000*

\* Includes redemption of all Bonds maturing 2005 through 2021.

At June 30, 1999, the 1996 Refunded Bonds Escrow Fund held cash and United States Treasury Securities (at market) in the amount of \$283,356,132 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. REFUNDED 1993 BONDS – 1993 BONDS ESCROW FUND

A portion of the proceeds of the Series of 1999 Bonds (\$616,677,050), together with moneys on deposit with the Trustee on account of the Refunded 1993 Bonds (\$19,817,995), were deposited into an irrevocable trust fund (the "1993 Bonds Escrow Fund") established and held by First Union National Bank, an escrow agent (the "Escrow Agent"), under and pursuant to the terms of an escrow deposit agreement dated as of April 1, 1999 (the "Escrow Deposit Agreement"). The 1993 Bonds Escrow Fund is required to be invested in government obligations, as defined in the Trust Indenture. Moneys in the 1993 Bonds Escrow Fund shall be used to pay interest on and principal of the Refunded 1993 Bonds, as and when due from June

15, 1999 to and including June 15, 2003 and to redeem and pay on June 15, 2003, at a redemption price of 100%, the principal of the Refunded 1993 Bonds then outstanding plus accrued interest to the redemption date.

The following sets forth the refunded 1993 Bonds (\$600,200,000 aggregate amount) which remain advance refunded through the 1993 Bonds Escrow Fund:

<b>Maturing June 15,</b>	<b>Par Amount</b>
2000	\$ 11,005,000
2001	11,455,000
2002	12,095,000
2003 and thereafter	565,645,000 *

\* Includes redemption of all bonds maturing 2003 through 2023.

At June 30, 1999, the 1993 Bonds Escrow Fund held cash and United States Treasury securities (at Market) in the amount of \$614,749,914 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 1993 Bonds on their scheduled redemption dates.

## **7. DEFINED BENEFIT PENSION PLAN**

**Plan Description** - The Authority covers all full-time employees in the State Employees' Retirement System (the "System") which was established as of June 27, 1923, under the provisions of Public Law 858, No. 331. The System is the administrator of a cost-sharing, multiple-employer defined benefit retirement system established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies.

The System is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. The System also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Commonwealth of Pennsylvania, State Employees' Retirement Board, 30 North Third Street, P.O. Box 1147, Harrisburg, Pennsylvania 17108.

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 General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50, with at least three years of service. The general annual benefit is 2% of the member's highest three-year annual average salary times years of service. The Authority's total and annual covered payroll for the year ended June 30, 1999 was \$535,884.

**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 contributions to the System for the years ended June 30, 1999, 1998 and 1997 were \$29,017, \$28,064 and \$29,873, respectively, and equal the required contribution for each year.

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

**7. LEASE OBLIGATIONS**

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

2000	\$ 67,962
2001	<u>33,450</u>
	<u>\$ 101,412</u>

Rental expense for the year ended June 30, 1999 was \$66,900.

\* \* \* \* \*

# **PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**

## **REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 1999**

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### **YEAR 2000 COMPLIANCE EFFORTS (UNAUDITED)**

Reliance on a two-digit date to represent the year in computer programs and microprocessors has caused great concern that hardware and software will either fail or operate in an erratic manner when the date reaches January 1, 2000. Any such failures in systems may adversely affect the Authority's ability to provide services.

The Authority has taken all action it believes is necessary to preclude any in-house computer problems which might arise relating to year 2000 problems, including installing and testing year 2000 compliant software and hardware. Such actions were taken during its fiscal years 1998 and 1999 at a cost approximating \$65,000 utilizing the Authority's General Fund consulting, computer software and capital outlay appropriations. However, the Authority relies to a substantial extent on the Commonwealth of Pennsylvania, the City of Philadelphia and First Union National Bank (the "Third Party Vendors") to provide it with financial services under contractual agreements. The services provided include collection and remittance of the PICA tax, all payroll services and a broad range of trustee related services. Each of the Third Party Vendors has indicated in public statements that it is, or will timely be, year 2000 compliant with respect to services of the type performed by it on the Authority's behalf, but the Authority cannot give assurances in this regard.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management of the Authority can not assure that the Authority will be year 2000 ready, that the Authority's remediation efforts will be successful in whole or in part, or that parties with whom it does business will be year 2000 ready.





**PENNSYLVANIA INTERGOVERNMENTAL COOPERATIVE AUTHORITY**

**SUPPLEMENTAL COMBINING BALANCE SHEET - ALL DEBT SERVICE FUNDS**

**JUNE 30, 1999**

ASSETS	Debt Service Fund			Debt Service Reserve Fund 1993A, 1996 and 1999	Rebate Fund 1993A	Total
	1993A	1996	1999			
Current assets:						
Cash and short-term investments	\$ 780,698	\$ 4,567,646	\$ 3,638,933	\$ 77,930,350	\$ 992,665	\$ 87,910,292
Accrued interest receivable	<u>673</u>	<u>3,942</u>	<u>3,092</u>	<u>250,781</u>	<u>3,534</u>	<u>262,022</u>
<b>TOTAL ASSETS</b>	<u>\$ 781,371</u>	<u>\$ 4,571,588</u>	<u>\$ 3,642,025</u>	<u>\$ 78,181,131</u>	<u>\$ 996,199</u>	<u>\$ 88,172,314</u>
<b>LIABILITIES AND FUND EQUITY</b>						
Current liabilities - interfund payable - due to Special Revenue Fund				\$ 250,781		\$ 250,781
Fund equity:						
Fund balances reserved for:						
Debt service	\$ 781,371	\$ 4,571,588	\$ 3,642,025	76,840,350	\$ 996,199	86,831,533
Subsequent PICA administration	<u>          </u>	<u>          </u>	<u>          </u>	<u>1,090,000</u>	<u>          </u>	<u>1,090,000</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 781,371</u>	<u>\$ 4,571,588</u>	<u>\$ 3,642,025</u>	<u>\$ 78,181,131</u>	<u>\$ 996,199</u>	<u>\$ 88,172,314</u>

**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**

**SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - ALL DEBT SERVICE FUNDS  
YEAR ENDED JUNE 30, 1999**

	<u>Debt Service Fund</u>				<u>Debt Service Reserve Fund</u>			<u>Rebate Fund</u>	<u>Total</u>
	<u>1993</u>	<u>1993A</u>	<u>1996</u>	<u>1999</u>	<u>1993</u>	<u>1993A</u>	<u>1993A, 1996 and 1999</u>	<u>1993A</u>	
Revenues - interest earned on investments	\$ 573,925	\$ 134,024	\$ 1,253,699	\$ 43,209	\$ 1,720,061	\$ 343,564	\$ 2,575,102	\$ 44,910	\$ 6,688,494
Expenditures:									
Principal		695,000	38,465,000	1,015,000					40,175,000
Interest	16,564,493	8,549,408	15,680,469	6,257,045					47,051,415
Payment to refunded debt escrow agent	19,817,995								19,817,995
Total expenditures	<u>36,382,488</u>	<u>9,244,408</u>	<u>54,145,469</u>	<u>7,272,045</u>					<u>107,044,410</u>
Excess of revenues over (under) expenditures	(35,808,563)	(9,110,384)	(52,891,770)	(7,228,836)	1,720,061	343,564	2,575,102	44,910	(100,355,916)
Other financing sources (uses) - operating transfers in (out)	<u>32,132,240</u>	<u>9,115,125</u>	<u>53,021,219</u>	<u>10,870,861</u>	<u>(65,924,911)</u>	<u>(13,859,064)</u>	<u>75,355,248</u>		<u>100,710,718</u>
Excess of revenues and other sources over (under) expenditures and other uses	(3,676,323)	4,741	129,449	3,642,025	(64,204,850)	(13,515,500)	77,930,350	44,910	354,802
BEGINNING FUND BALANCES, JULY 1, 1998	<u>3,676,323</u>	<u>776,630</u>	<u>4,442,139</u>		<u>64,204,850</u>	<u>13,515,500</u>		<u>951,289</u>	<u>87,566,731</u>
ENDING FUND BALANCES, JUNE 30, 1999	<u>\$ -</u>	<u>\$ 781,371</u>	<u>\$ 4,571,588</u>	<u>\$ 3,642,025</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,930,350</u>	<u>\$ 996,199</u>	<u>\$ 87,921,533</u>

**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**

**SUPPLEMENTAL COMBINING BALANCE SHEET - ALL EXPENDABLE TRUST FUNDS**

**JUNE 30, 1999**

<b>ASSETS</b>	<b>Capital Projects Fund</b>			<b>Total</b>	<b>Settlement Fund 1999</b>	<b>Total</b>
	<b>1992</b>	<b>1993</b>	<b>1994</b>			
Current assets:						
Cash and short-term investments	\$36,900,203	\$15,082,456	\$34,425,351	\$ 86,408,010	\$ 9,847	\$ 86,417,857
Accrued interest receivable	89,858	63,845	87,441	241,144	66	241,210
<b>TOTAL ASSETS</b>	<b><u>\$36,990,061</u></b>	<b><u>\$15,146,301</u></b>	<b><u>\$34,512,792</u></b>	<b><u>\$ 86,649,154</u></b>	<b><u>\$ 9,913</u></b>	<b><u>\$ 86,659,067</u></b>
<b>FUND BALANCES</b>						
Reserved for benefit of the City of Philadelphia	<u>\$36,990,061</u>	<u>\$15,146,301</u>	<u>\$34,512,792</u>	<u>\$ 86,649,154</u>	<u>\$ 9,913</u>	<u>\$ 86,659,067</u>
<b>TOTAL FUND EQUITY</b>	<b><u>\$36,990,061</u></b>	<b><u>\$15,146,301</u></b>	<b><u>\$34,512,792</u></b>	<b><u>\$ 86,649,154</u></b>	<b><u>\$ 9,913</u></b>	<b><u>\$ 86,659,067</u></b>

**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**

**SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - ALL EXPENDABLE TRUST FUNDS  
YEAR ENDED JUNE 30, 1999**

	<u>Capital Projects Fund</u>				<u>Settlement Fund 1996</u>	<u>Settlement Fund 1999</u>	<u>Total</u>
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>Total</u>			
Revenues - interest earned on investments	\$ 1,882,611	\$ 817,716	\$ 2,003,102	\$ 4,703,429	\$ 4,222	\$ 479	\$ 4,708,130
Expenditures:							
Grants to the City of Philadelphia for approved capital projects (refunds of prior grants to the City)	(1,400,000)	(812,853)	213,896	(1,998,957)			(1,998,957)
Debt issuance costs						956,779	956,779
Total expenditures	(1,400,000)	(812,853)	213,896	(1,998,957)	-	956,779	(1,042,178)
Excess of revenues over (under) expenditures	3,282,611	1,630,569	1,789,206	6,702,386	4,222	(956,300)	5,750,308
Other - financing sources (uses):							
Proceeds from debt issuance for PICA debt refunding						618,710,703	618,710,703
Payment to refunded debt escrow agent						(616,677,050)	(616,677,050)
Operating-transfers in (out)					(116,324)	(1,067,440)	(1,183,764)
Total other financing sources (uses)	-	-	-	-	(116,324)	966,213	849,889
Excess of revenues and other sources over (under) expenditures and other uses	3,282,611	1,630,569	1,789,206	6,702,386	(112,102)	9,913	6,600,197
BEGINNING FUND BALANCES, JULY 1, 1998	33,707,450	13,515,732	32,723,586	79,946,768	112,102		80,058,870
ENDING FUND BALANCES, JUNE 30, 1999	\$ 36,990,061	\$ 15,146,301	\$ 34,512,792	\$ 86,649,154	\$ -	\$ 9,913	\$ 86,659,067

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## GENERAL FUND

### SUPPLEMENTAL STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL YEAR ENDED JUNE 30, 1999

	<b>Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
Revenues - interest earnings	\$ 32,219	\$ 52,662	\$ 20,443
Expenditures:			
Personnel - salaries and benefits	779,750	868,721	88,971
Professional services:			
Legal	38,500	5,448	(33,052)
Audit	38,500	38,500	
Consulting/research	5,000	4,933	(67)
Interagency services	1,500		(1,500)
Trustee bond issuance and miscellaneous	90,000	49,380	(40,620)
Other:			
Rent	73,645	66,900	(6,745)
Computer software and minor hardware	5,000	7,025	2,025
Office supplies	7,000	5,255	(1,745)
Telephone	8,000	11,429	3,429
Subscriptions and reference services	5,500	4,246	(1,254)
Postage and express	7,500	6,922	(578)
Dues and professional education	7,500	8,556	1,056
Travel	4,500	2,859	(1,641)
General and administrative	13,500	11,392	(2,108)
Miscellaneous	13,500		(13,500)
Administration - operations	1,098,895	1,091,566	(7,329)
Capital outlay - furniture, fixtures and equipment	25,000	13,100	(11,900)
Total - administration	<u>1,123,895</u>	<u>1,104,666</u>	<u>(19,229)</u>
Excess of expenditures over revenues	(1,091,676)	(1,052,004)	(39,672)
Other financing sources - transfers in - PICA draw for operations	<u>880,000</u>	<u>880,000</u>	
Excess of expenditures over revenues and other financing sources	(211,676)	(172,004)	(39,672)
BEGINNING FUND BALANCE, JULY 1, 1998	<u>593,949</u>	<u>593,949</u>	
ENDING FUND BALANCE, JUNE 30, 1999	<u>\$ 382,273</u>	<u>\$ 421,945</u>	<u>\$ 39,672</u>

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## GENERAL FUND

### SUPPLEMENTAL STATEMENT OF CASH ACTIVITY YEAR ENDED JUNE 30, 1999

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Cash receipts:	
Revenues collected - interest	\$ 56,928
Other financing sources - operating transfers in from interest earnings on Debt Service Funds	<u>880,000</u>
Total cash receipts	936,928
Cash disbursements - expenditures paid - administration	<u>1,094,655</u>
Excess of cash disbursements over cash receipts	(157,727)
CASH AND SHORT-TERM INVESTMENTS, JULY 1, 1998	<u>787,425</u>
CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1999	<u>\$ 629,698</u>

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SPECIAL REVENUE FUND

### SUPPLEMENTAL STATEMENT OF CASH ACTIVITY

YEAR ENDED JUNE 30, 1999

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Cash receipts:	
Revenues collected:	
PICA Taxes	\$243,315,729
Interest	259,012
Other financing sources - operating transfers in from interest earnings on Debt Service Funds	<u>5,664,974</u>
Total cash receipts	<u>249,239,715</u>
Cash disbursements:	
Expenditures paid - grants to the City of Philadelphia	143,180,170
Other financing uses - operating transfers out for debt service requirements	<u>106,059,545</u>
Total cash disbursements	<u>249,239,715</u>
Excess of cash receipts over cash disbursements	
CASH AND SHORT-TERM INVESTMENTS, JULY 1, 1998	<u>0</u>
CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1999	<u><u>\$ 0</u></u>