

**\$165,550,000**  
**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**  
**SPECIAL TAX REVENUE REFUNDING BONDS (CITY OF PHILADELPHIA**  
**FUNDING PROGRAM), SERIES OF 2003**

**TAX COMPLIANCE AGREEMENT**

This Tax Compliance Agreement (the "*Tax Compliance Agreement*") is made and executed this 16<sup>th</sup> day of June, 2003, by the Pennsylvania Intergovernmental Cooperation Authority (the "*Authority*"), in its capacity as issuer of the 2003 Bonds, and The City of Philadelphia, Pennsylvania (the "*City*"), in connection with the Authority's issuance of its \$165,550,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2003 (the "*2003 Bonds*"), for the purpose of providing the factual basis upon which Klett Rooney Lieber & Schorling, A Professional Corporation, is rendering, on the date hereof, its legal opinion to the effect that interest on the 2003 Bonds will be excluded from gross income for federal income tax purposes by reason of Section 103 of the Code (defined hereinafter). The Authority and the City are also making certain covenants for the benefit of the Bondholders for the purpose of ensuring that interest on the 2003 Bonds will be excluded from gross income for federal income tax purposes and intend to be legally bound hereby.

**ARTICLE I:           DEFINITIONS**

***Section 1.1.   Definitions***

In addition to the definitions contained elsewhere in this Tax Compliance Agreement, the following terms shall have the following meanings. Capitalized terms used herein and not otherwise defined herein, shall have the same meanings set forth in the Indenture.

"*Act*" means the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Act of June 5, 1991, P.L. 9, No. 6), as amended.

"*Bond Counsel*" means a firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

"*Bond Year*" means each one-year period (or shorter period commencing on the Issue Date), that ends on the close of business on the day in the calendar year selected by the Authority (which date shall correspond to the last day of a compounding interval used in computing the Yield on the 2003 Bonds). The first Bond Year shall commence on the Issue Date and shall end on June 15, 2004, each subsequent Bond Year shall commence on June 16 and end on June 15, and the last Bond Year shall end on the date of final payment of principal of or interest on the 2003 Bonds.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Computation Date*" means the last day of each Bond Year and the date on which the final Bond is discharged.

"*Excess Amount*" means the amount calculated pursuant to Section 3.2(b)(i) hereof.

**"Gross Proceeds"** shall have the meaning ascribed to such term in Section 148 of the Code and Section 1.148-1(b) of the Regulations, which term includes, among other things, original proceeds, investment proceeds, transferred proceeds and any funds (other than the foregoing) that are part of a reserve or replacement fund for the 2003 Bonds.

**"Indenture"** means the Amended and Restated Indenture of Trust dated as of December 1, 1994, between the Authority and the Trustee, as amended and supplemented by the First Supplement to the Amended and Restated Indenture of Trust dated as of May 15, 1996, the Second Supplement to the Amended and Restated Indenture of Trust dated as of April 1, 1999, and a Third Supplement to the Amended and Restated Indenture of Trust dated as of June 1, 2003, between the Authority and the Trustee and as further amended or supplemented from time to time in accordance with the terms thereof.

**"Investment Property"** means any security or obligation (other than obligations the interest on which is excludable from gross income for federal income tax purposes under Section 103(a) of the Code unless described in Section 148(b)(2)(E) of the Code), any annuity contract or any other investment-type property.

**"Issue Date"** means June 16, 2003.

**"Liquidity Facility"** means the Standby Bond Purchase Agreement dated as of June 1, 2003 with JPMorgan Chase Bank (the "**Bank**") pursuant to which the Bank has agreed to pay to the Trustee the purchase price of Bonds which are tendered for optional or mandatory purchase pursuant to Article III of the Third Supplement to the Amended and Restated Indenture which have not been successfully remarketed.

**"1992 Bonds"** means the Authority's Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1992.

**"1993A Bonds"** means the Authority's Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1993A.

**"Non-purpose Investments"** shall have the meaning ascribed to such term in Section 148 of the Code and shall mean any Investment Property in which Gross Proceeds are invested which is not acquired to carry out the governmental purpose of the 2003 Bonds, including but not limited to obligations acquired with Gross Proceeds that are invested temporarily until needed for the governmental purpose of the 2003 Bonds, that are invested in a reasonably required reserve or replacement fund (within the meaning of Regulation §1.148-2(f)), and that are part of any sinking fund.

**"Prior Bonds"** means, collectively, the 1992 Bonds and the 1993A Bonds.

**"Project"** shall have the meaning set forth in Section 2.1(a) hereof.

**"Rebate Amount"** means the amount required to be remitted to the United States of America from time to time pursuant to Section 148(f)(2) of the Code and computed in accordance with Section 3.2 hereof.

**"Rebate Requirement"** means the amount calculated pursuant to Section 3.2(b)(ii) hereof.

**"Regulations"** means the applicable Income Tax Regulations promulgated by the United States Department of the Treasury with respect to the Code, including the Income Tax Regulations promulgated under substantially similar provisions of the Internal Revenue Code of 1954, as amended.

**"Trustee"** means Wachovia Bank, National Association, or any successor designated in accordance with the Indenture.

**"2003 Bonds"** mean the Authority's \$165,550,000 aggregate principal amount Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2003.

**"Yield"** shall have the meaning ascribed to such term by Section 148 of the Code and shall mean that discount rate which, when computing the present worth of all payments of principal and interest to be paid on an obligation, produces an amount equal to the purchase price of the obligation. In the case of the 2003 Bonds, the purchase price shall be the present value of the issue price of each 2003 Bond.

**"Yield Reduction Amount"** shall mean any amount paid to the United States to reduce the yield on Investment Property for yield restriction purposes pursuant to Regulation §1.148-5(c).

## ARTICLE II: USE OF BOND PROCEEDS AND REPRESENTATIONS REGARDING TAX MATTERS

### *Section 2.1. Nature of Project*

The Authority hereby represents and certifies as follows:

(a) The proceeds derived from the sale of the 2003 Bonds by the Authority are to be used to provide funds to finance all or a portion of the costs of: (i) the current refunding of the outstanding 1993A Bonds, and (ii) paying the costs of issuing the 2003 Bonds and of obtaining credit enhancement for the 2003 Bonds (collectively, the "**Project**").

(b) The 1993A Bonds were issued in the original aggregate principal amount of \$178,675,000 pursuant to a resolution duly adopted by the governing body of the Authority on August 19, 1993 and an Indenture of Trust dated as of June 1, 1992, as amended and supplemented by a First Supplemental Indenture of Trust dated as of June 22, 1992, a Second Supplemental Indenture of Trust dated as of July 15, 1993, and a Third Supplemental Indenture of Trust dated as of August 15, 1993 between the Authority and the Trustee, to (i) provide for the refunding of the 1992 Bonds maturing on June 15 of the years 2006, 2012 and 2022 in the aggregate principal amount of \$136,670,000 (the "**Refunded 1992 Bonds**"), (ii) make the required deposit to the Debt Service Reserve Fund in respect of the 1993A Bonds in an amount equal to the lesser of 10% of the proceeds of the 1993A Bonds, excluding accrued interest, and the maximum annual debt service requirement on the 1993A Bonds, and (iii) pay the costs of issuing the 1993A Bonds.

(c) The 1992 Bonds were issued in the original aggregate principal amount of \$474,555,000, the proceeds of which were used to (i) make grants to the City of Philadelphia (the "**City**"), in the amount of \$256,200,000, to fund the Fiscal Year 1991 General Fund cumulative deficit, the projected Fiscal Year 1992 General Fund deficit and the projected Fiscal Year 1993 General Fund deficit of the City; (ii) make grants to the City in the amount of \$120,000,000 to pay the costs of certain capital projects (the "**1992 Capital Projects**") to be undertaken by the City; (iii) make a grant to the City in the amount of \$20,000,000 to provide other financial assistance to the City to enhance productivity in the operation of City government (the "**Productivity Bank**"); (iv) make the required deposit to the Debt Service Reserve Fund in an amount equal to 10% of the proceeds of the 1992 Bonds; (v) capitalize interest on a portion of the 1992 Bonds, in the amount of \$20,000,000, through June 15, 1993; (vi) repay \$150,000 previously advanced to the Authority by the Commonwealth of Pennsylvania (the "**Commonwealth**") to pay initial operating expenses of the Authority; (vii) fund a portion of the Authority's first fiscal year operating budget in the amount of \$500,000 which was used to pay a portion of the expenses of the Authority related to the issuance of the 1992 Bonds; and (viii) pay the costs of issuing the 1992 Bonds.

### **Section 2.2. Approval of Issue**

(a) **Official Action.** The Authority approved the issuance and sale of the 2003 Bonds for the purpose of financing the cost of the Project by a resolution adopted by the governing board of the Authority pursuant to the Act on March 24, 2003.

(b) **Public Approval.** The Authority is a political subdivision of the Commonwealth of Pennsylvania. As the 2003 Bonds are not private activity bonds (see Section 2.3 hereof), the public approval requirements of Code §147 are not applicable.

### **Section 2.3. Not Private Activity Bonds**

(a) The Authority covenants and represents that, as of the date of this Tax Compliance Agreement, it is a body corporate and politic created as a public authority and instrumentality of the Commonwealth of Pennsylvania.

(b) The Authority covenants that it will not permit any facilities financed with the proceeds of the 2003 Bonds to be put to a private business use as defined in Section 141(b)(6) of the Code ("**Private Business Use**") while the 2003 Bonds are outstanding if that use will adversely affect the federal income tax status of the interest on the 2003 Bonds.

(c) The Authority covenants that it will not permit the payment of principal or interest on the 2003 Bonds

(i) to be made, financed or secured by, directly or indirectly, payments or property applied to any Private Business Use,

(ii) to be secured, directly or indirectly, by (A) interests in property or (B) payments in respect of such property, which property is put to any Private Business Use, or

(iii) to be derived, directly or indirectly, by payments (whether or not to the Authority) in respect of property or borrowed money, put to any Private Business Use

if in each such case such act will adversely affect the federal income tax status of the interest on the 2003 Bonds. With regard to this covenant, the Authority acknowledges that Code §141(b)(2) limits such private payments or security to 10% of the proceeds of an issue and that Code §141(b)(3) limits such private payments or security to 5% of the proceeds of an issue in the case of business use which is not related to the government use of such proceeds and in the case of disproportionate related business use (as defined in Code §141(b)(3)(B)).

(d) The Grants. The Authority issued the 1992 Bonds to provide funds for intergovernmental grants (the "**Grants**") to the City. (The 1992 Bonds were advance refunded by the 1993A Bonds.) The Grants were for capital projects of the City and to fund operating deficits of the City.

(i) The City is not paying or providing any consideration for the Grants, and the City has no obligation (and is not subject to any condition) to directly or indirectly repay any amount to the Authority on account of the Grants.

(ii) Neither the Authority nor the City is under the control of the other, either directly or indirectly or through any third party, and in accepting the Grants the City is acting in its own behalf and not as agent of the Authority.

(iii) The City is not liable, either directly or indirectly, for the payment of debt service on the 2003 Bonds and was not liable, either directly or indirectly, for payment of debt service on the 1992 Bonds.

(iv) The Authority is not receiving any payments, direct or indirectly, which are attributable to the Grants. The property attributable to the Grants is owned by the City without any security interest or other special legal interest in the Authority.

(v) The Authority was not liable, either directly or indirectly, for payment of debt service on the general obligation bonds of the City which the City defeased with certain of the Grants.

(vi) In addition to the Grants, the Authority used proceeds of the Prior Bonds to create a reserve fund for the Prior Bonds and to pay the costs of issuance of the Prior Bonds. The proceeds of the Prior Bonds that have been held in the reserve fund for the Prior Bonds will, upon defeasance of the Prior Bonds, become part of the Debt Service Reserve Fund securing the 2003 Bonds as well as all other outstanding Bonds of the Authority issued under the Indenture.

(vii) Certain portions of the Grants remain undisbursed at the present time and are treated by the Authority as unexpended proceeds of the 1992 Bonds. It is reasonably expected that the Authority will continue to disburse these amounts for the purposes of the 1992 Bonds. Pending such disbursements, the Authority will restrict its yield on investment of these amounts to the yield on the 2003 Bonds when such amounts become transferred proceeds of the 2003 Bonds. These yield restrictions may be

accomplished through "yield reduction payments" to the federal government under Regulations §1.148-5(c).

***Section 2.4. Composite Issues***

(a) There are no other obligations heretofore issued or to be issued by or on behalf of any State, the District of Columbia, any possession of the United States or any political subdivision of any of the foregoing which

- (i) are issued at substantially the same time as the 2003 Bonds,
- (ii) are being sold pursuant to the same plan of financing with the 2003 Bonds; and
- (iii) will be paid out of substantially the same source of funds (or have substantially the same claim to be paid out of substantially the same source of funds) as the 2003 Bonds.

***Section 2.5. No Federal Guarantees***

(a) The Authority represents that payment of principal and interest with respect to the obligation represented by the 2003 Bonds neither has been, nor will be guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof) and the obligation has not been issued as part of an issue a significant portion of the proceeds of which either has been or will be (i) used in making loans the payment of principal or interest with respect to which is guaranteed by the United States (or any agency or instrumentality thereof) or (ii) invested, directly or indirectly, in federally insured deposits or accounts, except to the extent that the proceeds of the 2003 Bonds may be invested for an initial temporary period until such proceeds are needed to pay the costs of the Project or in obligations issued by the United States Treasury.

(b) The Authority covenants that it will not enter into any contracts or agreements with the United States or any agency or instrumentality thereof that would cause the representations set forth in the preceding paragraph to be false.

***Section 2.6. Form 8038G***

The Authority agrees to cause a properly completed and executed Treasury Department Form 8038G with respect to the issuance of the 2003 Bonds and the Project to be timely and properly filed with the Internal Revenue Service.

***Section 2.7. Compliance with Code***

(a) The Authority covenants that it will not make an investment or other use of the proceeds of the 2003 Bonds which would cause the 2003 Bonds to be "Arbitrage Bonds" as that term is defined in Section 148 of the Code, and all applicable regulations promulgated with respect thereto, and that it will comply with the requirements of the Code and Regulations throughout the term of the 2003 Bonds.

(b) The Authority covenants to the Bondholders that it will not take any action, omit to take any action, or permit any other person to take any action or fail to take any action over which it has control, which action or inaction would cause the interest on the 2003 Bonds to be subject to federal income tax to a greater extent than on the date of issuance of the 2003 Bonds.

(c) The covenants and conditions set forth in this document are based upon the Code and Regulations as they exist on the date hereof and the Authority recognizes that the Code or Regulations may be subsequently interpreted or modified in a manner which is inconsistent with the covenants set forth herein. The Authority agrees that any subsequent modification or interpretation of the Code or Regulations, to the extent applicable to the 2003 Bonds, will be deemed a requirement that must be met pursuant to the general tax covenant set forth in (a) above. If in the opinion of Bond Counsel any such subsequent interpretation or modification renders compliance with any of the procedures set forth in this document unnecessary to assure the continued exclusion from gross income for federal income tax purposes of interest on the 2003 Bonds, this document may be amended to delete that procedure or, if necessary, substitute any other procedures that may be deemed necessary by Bond Counsel to maintain the exclusion from gross income for federal income tax purposes of interest on the 2003 Bonds.

### **ARTICLE III: REBATE**

#### ***Section 3.1. Rebate Covenant***

The Authority hereby specifically covenants that it will pay or cause to be paid the Rebate Amounts and Yield Reduction Amounts, if any, to the United States of America at the times and in the amounts determined in accordance with the provisions Section 148(f) of the Code. In order to comply with the rebate requirements of Section 148(f) of the Code, the Authority covenants to comply with the provisions of Sections 3.2 and 3.3 hereof until such time, if any, as such provisions are amended pursuant to Section 3.5 hereof.

#### ***Section 3.2. Rebate Computations***

The Authority shall perform, or shall cause to be performed by its representative (the "Representative"), the following calculations (the "***Rebate Calculations***" and/ or "***Yield Reduction Calculations***") in the manner and at the times herein described:

(a) Within 10 days following any Computation Date, the Authority shall request from the Trustee copies of records prepared by the Trustee concerning investments of any money related to the 2003 Bonds held in all funds and accounts attributable to the 2003 Bonds, which (together with records previously prepared) will enable the Authority to track all investments of Gross Proceeds of the 2003 Bonds held in the funds and accounts established pursuant to the Indenture since the Issue Date through the most recent Computation Date. The records shall comply with the requirements of Section 3.4 hereof.

(b) At any time prior to forty five (45) days following each Computation Date, the Authority or the Representative shall:

(i) calculate the Excess Amount and/or the Yield Reduction Amount, if any, in accordance with Regulation § 1.148-1 et seq., which shall be the amount by which (A) the future value of all receipts on Nonpurpose Investments with respect to the 2003 Bonds exceeds (B) the future value of all payments on Nonpurpose Investments with respect to the 2003 Bonds. For the purpose of this calculation, the Representative shall not take into account the nonpurpose receipts from the investment of the Gross Proceeds in the Debt Service Fund (as defined in the Indenture) in any Bond Year.

(ii) calculate the Rebate Requirement, which shall be (A) the Excess Amount less (B) the sum of (1) the future value of any amounts previously remitted to the United States Government, and (2) any computation date credit that may be available under the Regulations on any payment date.

(c) On or before the 50th day following the Computation Date, the Authority shall have completed the Rebate Calculations and Yield Reduction Calculations, if any. The Rebate Calculations shall include or be accompanied by the following:

(i) the most recent calculation of the amount in the Excess Amount and/or the Yield Reduction Amount, if any; and

(ii) the most recent calculation of the Rebate Requirement.

### ***Section 3.3. Rebate Payments.***

The Authority shall remit to the United States of America at the Internal Revenue Service Center, Ogden, Utah, 84201, the Rebate Amount and/or the Yield Reduction Amount, if any, which shall be an amount which when added to the future value, as of each fifth Computation Date, of all previous rebate payments theretofore remitted to the United States equals at least 90% (100% with respect to the final Computation Date) of the Rebate Requirement (exclusive of any Yield Reduction Amount) as of the applicable Computation Date on or before 60 days following each fifth Computation Date (60 days after the final Computation Date). The payment shall be accompanied by any form or forms required to be submitted with the remittance which may include (i) a statement summarizing the determination of the amount required to be paid, (ii) a copy of the Internal Revenue Service Form 8038G filed with respect to the 2003 Bonds (or Form 8038-T or its equivalent); and (iii) the CUSIP number of the 2003 Bonds with the latest maturity for which there is a CUSIP number.

### ***Section 3.4. Books and Records***

(a) The Authority shall retain all records required herein for at least 6 years after the date on which the last of the principal of and interest on the 2003 Bonds has been paid, whether upon maturity, prepayment, redemption, or acceleration thereof.

(b) The Authority shall keep proper books of record and accounts containing complete and correct entries of all transactions relating to the receipt, investment, disbursement and allocation of the Gross Proceeds of the 2003 Bonds. The records shall specify the account or fund to which each investment (or portion thereof) is to be allocated and shall set forth, in the case of each investment security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as



the case may be, including accrued interest, (d) the amount and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

(c) ***Records Relating to Investments.*** The Authority shall retain with respect to each item of Investment Property purchased with the Gross Proceeds of the 2003 Bonds such documentation as is required and received by it as evidence to establish that it

(i) has been acquired and disposed of on an established market in an arm's length transaction at a price equal to its fair market value and no amounts have been used to reduce the yield on the investments, or

(ii) shall be U.S. Treasury Obligations--State and Local Government Series acquired directly from the United States Treasury.

The determination of the fair market value of each item of Investment Property purchased with the Gross Proceeds of the 2003 Bonds shall be determined in accordance with Section 1.148-5 of the Regulations.

### ***Section 3.5. Amendments***

The Authority covenants to comply with the instructions contained in Sections 3.1 through 3.4 above until such instructions are superseded by new instructions, if any, regarding rebate prepared by Bond Counsel to be delivered to the Authority subsequent to the date of this Tax Compliance Agreement in the event that amendments are made to the Code or the Regulations relating to rebate.

### ***Section 3.6. Exception to Rebate***

The obligation to pay the Rebate Amount to the United States, as described herein, shall be treated as having been satisfied with respect to the 2003 Bonds if all Gross Proceeds are expended for the governmental purpose of the 2003 Bonds by no later than the date which is six months after the Issue Date and if it is not anticipated that any other Gross Proceeds will arise during the remainder of the term of the 2003 Bonds. For this purpose and for the purpose of Section 3.6 only, Gross Proceeds do not include amounts deposited in a bona fide debt service fund and amounts contained in a reasonably required reserve fund. If Gross Proceeds are in fact expended by that date, then the Rebate Amount need not be calculated and no payment thereof to the United States need be made with respect to amounts other than those contained in the Debt Service Reserve Fund. It is anticipated that the 2003 Bonds will qualify for this exception to rebate.

## **ARTICLE IV: ARBITRAGE**

### ***Section 4.1. Reasonable Expectations***

The undersigned duly authorized officer of the Authority, acting on behalf of the Authority, and being among the officers duly charged with responsibility for issuing the 2003 Bonds, pursuant to Section 1.148-2(b)(2) of the Regulations, hereby certifies that on the basis of the facts, estimates and circumstances in existence on the date hereof, he or she reasonably expects the following, as detailed in Sections 4.2 through 4.12 hereof, with respect to the 2003 Bonds and as to the use of the proceeds thereof. Certain of the expectations of the Authority set

forth in this Tax Compliance Agreement are based upon the expectations, representations and covenants of the City contained in Article V of this Tax Compliance Agreement and upon the representation of the representative of the Underwriters (defined hereinafter) contained in Exhibit B attached hereto, which in each case the Authority believes to be reasonable.

#### ***Section 4.2. Use of Proceeds***

The proceeds derived from the sale of the 2003 Bonds will be used by the Borrower to pay the costs of the Project all as detailed in Exhibit "A", Sources and Uses of Proceeds of the 2003 Bonds, hereto.

#### ***Section 4.3. No Overissuance***

The total proceeds to be received by the Authority from the sale of the 2003 Bonds and allocable to the Project, and any anticipated investment earnings thereon do not exceed the total of the amount necessary for the purposes described above.

#### ***Section 4.4. Funds and Accounts***

The Indenture creates the following funds: (i) Deficit Fund, (ii) Capital Projects Fund, (iii) Revenue Fund, (iv) Debt Service Fund, (v) Debt Service Reserve Fund, (vi) Bond Redemption Fund, (vii) Rebate Fund, (viii) Settlement Fund and (ix) Bond Purchase Fund. Each of these funds is to be held in trust by the Trustee under the Indenture and, except for the Rebate Fund, which shall not be subject to any security interest, pledge, assignment, lien or charge in favor of the Trustee, any Bondholder, any Credit Facility Issuer or any other Person, such funds are pledged to secure the obligations to Bondholders and each Credit Facility Issuer under the Indenture. The Trustee is authorized to establish accounts in each fund (other than the Debt Service Reserve Fund) to identify the Series of Bonds providing the source of money in such account or in respect of which money in such account is available to pay debt service. Moneys in accounts in respect of a particular Series shall only be available to pay debt service or the redemption price of the Bonds of such Series, except as may otherwise be provided in the Indenture or in the Supplemental Indenture adopted at or prior to the time of issuance of such Series.

##### **(a) Deficit Fund**

At the time of issuance of each Series of Bonds, there shall be deposited in the Deficit Fund such amount as shall be specified in the Indenture or the Supplemental Indenture authorizing the issuance of such Series of Bonds. Amounts in the Deficit Fund constituting proceeds of any Series of Bonds shall be applied as provided in the Indenture or the Supplemental Indenture authorizing such Series of Bonds. If there are insufficient amounts in the Debt Service Fund to make any payment of principal of or interest due on the Bonds and there are no available amounts in the Debt Service Reserve Fund or the Capital Projects Fund for such purpose, the Trustee shall transfer amounts from the Deficit Fund to the Debt Service Fund to the extent necessary to eliminate such deficiency. In addition, if any provision of Section 202 of the Act is held invalid by a court of competent jurisdiction, the Trustee shall not transfer any amounts from the Deficit Fund to the City unless it receives an Order from the Supreme Court of Pennsylvania permitting such transfer. No proceeds of the 2003 Bonds are expected to be deposited into the Deficit Fund.

(b) Capital Projects Fund

At the time of issuance of each Series of Bonds, there shall be deposited in the Capital Projects Fund such amount as shall be specified in the Indenture or in the Supplemental Indenture authorizing the issuance of such Series of Bonds. Amounts in the account in the Capital Projects Fund derived from proceeds of a Series of Bonds shall be disbursed only for costs of the capital projects identified in the Indenture or in the Supplemental Indenture authorizing the issuance of such Series of Bonds. The capital projects to be funded from the Capital Projects Fund may be revised by the Authority, with the consent of the City, upon delivery to the Trustee of, among other things, an opinion of Bond Counsel to the effect that such revision is permitted under the Act and will not adversely affect the excludability of interest on any Bonds from gross income for federal tax purposes. Such revision shall not require execution of a Supplemental Indenture and shall not be considered an amendment requiring consent of any Bond Insurer or Bondholders.

The Trustee shall transfer amounts in the applicable account in the Capital Projects Fund to the Encumbered Funds Account upon receipt of a requisition signed by the Authority accompanied by a notice (in the form prescribed in the Indenture) of the City to the Authority to the effect that the City is prepared to award a contract for or commence work on an approved capital project or projects, which notice shall identify in reasonable detail: (i) the capital project or projects, (ii) the amount of the contract to be awarded or the cost of work to be encumbered, and (iii) the proposed date of award of such contract or the proposed date of commencement of the work. The Trustee shall not transfer amounts from the Capital Projects Fund to the Encumbered Funds Account at any time when a suspension of payment from the Commonwealth to the City is in effect as a result of the Authority certifying that the City is not in compliance with an approved financial plan pursuant to provisions of the Act and the Trustee has notice of such suspension. In addition, the Trustee shall not transfer amounts from the Capital Projects Fund to the Encumbered Funds Account if any provision of Section 202 of the Act is held invalid by a court of competent jurisdiction, unless the Trustee receives an order of the Supreme Court of Pennsylvania permitting such transfer. Upon completion, termination or abandonment of any capital project with respect to which moneys shall have been disbursed to the Encumbered Funds Account, any unspent moneys deposited therein for such capital project shall, to the extent not approved by the Authority for application to other capital projects being funded from the Encumbered Funds Account, be deposited, at the direction of the Authority and the City, in the Capital Projects Fund.

Amounts remaining in any account in the Capital Projects Fund after completion, termination or abandonment of the capital project or projects to be financed with the proceeds of the related Series of Bonds shall be transferred at the direction of the Authority to the Debt Service Fund for the payment of principal next becoming due on the applicable Series of Bonds or to the Bond Redemption Fund for redemption of Bonds of such Series at the earliest practicable date that Bonds of such Series can be redeemed without a premium unless the Trustee is directed by the Authority at the request of the City to apply such excess for a purpose permitted under the Act and receives an opinion of Bond Counsel that such use is permitted under the Act and will not adversely effect the excludability of interest on any Bonds from gross income for federal income tax purposes.

To the extent that amounts in the Debt Service Fund are insufficient to make any payment of principal of or interest due on the Bonds after all available amount in the Debt

Service Reserve Fund have been used, the Trustee shall transfer amounts from the Capital Projects Fund to the Debt Service Fund to the extent necessary to eliminate such deficiency.

No proceeds of the 2003 Bonds are expected to be deposited into the Capital Projects Fund. The Authority is no longer authorized to finance new capital projects.

(c) Revenue Fund

The Act requires that the Authority Tax be collected by the Department of Revenue of the Commonwealth (the "Pennsylvania Revenue Department") for deposit in the Pennsylvania Intergovernmental Cooperation Authority Tax Fund (the "PICA Tax Fund") established under the Act and held by the Treasurer of the Commonwealth (the "State Treasurer"), as custodian. The State Treasurer is required by the Act to transfer all amounts in the PICA Tax Fund at least weekly to or upon the order of the Authority. Concurrently with the issuance of the 1992 Bonds, the Authority directed the State Treasurer to transfer all such amounts to the Trustee for deposit in the Revenue Fund established under the Indenture in accordance with the requirements of the Act and for so long as any 1992 Bonds are Outstanding under the Indenture. Similar instructions were given in connection with the issuance of the 1993 Bonds, the 1993A Bonds, the 1994 Bonds, the 1996 Bonds and the 1999 Bonds. In connection with the issuance of the 2003 Bonds, similar instructions will be given relating to the 1996 Bonds, the 1999 Bonds and the 2003 Bonds so long as any of such bonds are Outstanding under the Indenture. The Act authorizes the Pennsylvania Revenue Department to appoint agents for the collection and enforcement of the Authority Tax. Pursuant to such authority, a letter dated June 28, 1991 from the Pennsylvania Revenue Department and the Pennsylvania Intergovernmental Cooperation Authority Income Tax Collection Agency Agreement, dated as of June 1, 1992 (the "Tax Collection Agreement"), by and between the Commonwealth and the City, the Revenue Department of the City ("City Revenue Department") and the Law Department of the City have been appointed agents of the Pennsylvania Revenue Department for the collection and enforcement of the Authority Tax. The procedures for the collection and transfer of the Authority Tax are prescribed in the Act and are further delineated in the Authority Tax Ordinance and the Tax Collection Agreement.

Promptly after deposit of moneys in the Revenue Fund, the Trustee shall transfer any money in the Revenue Fund to the following funds in the following order and priority:

(a) to the Debt Service Fund, the amount necessary to cause the aggregate amount therein in each month to equal the sum of (i) the aggregate for all Series of Bonds paying interest semiannually of 1/6 (such fraction to be increased or decreased, as appropriate, for a Series to account for any initial or final interest period shorter or longer than six months) of the amount of interest that will be due and payable on each such Series of Bonds on the next succeeding Interest Payment Date for the respective Series, (ii) the aggregate for all Series of Bonds paying interest at an interval other than semiannually of an amount equal to the interest that will be due and payable or otherwise accrue on each such Series of Bonds during such month (assuming that interest due on such Bonds will be payable at the maximum interest rate applicable to such Bonds, and taking into account (A) any amounts received from the counterparty to an interest rate exchange agreement, interest rate cap or floor agreement or other similar agreement, including the 2003 Bonds Swap (defined hereinafter in §4.7), deposited directly into the Debt Service Fund, and (B) any amounts remaining in the Debt Service Fund from prior months' transfers from the Revenue Fund in excess of the amount actually paid or accrued as interest on such Bonds for such prior months), (iii) the aggregate for all Series of Bonds of 1/12 (such fraction to be increased, as appropriate, for a Series to account for any initial

or final principal payment period shorter than 12 months) of the amount of principal that will become due and payable on each Series of Bonds (whether upon maturity or mandatory redemption) on the next succeeding principal payment date (whether upon maturity or mandatory redemption) for the respective Series occurring within the next year following the date of such transfer, (iv) any deficiency in deposits required to be made in prior months under the preceding clauses (i), (ii) and (iii) which has not been eliminated and (v) any amount owed to any Credit Facility Issuer in respect of payments made for principal and interest on Bonds;

(b) to the Debt Service Reserve Fund, the amount necessary to eliminate any deficiency therein (a deficiency being the amount by which the Debt Service Reserve Requirement exceeds the amount in such Fund);

(c) to any Person entitled to payment pursuant to an interest rate exchange agreement, interest rate cap or floor agreement or other similar agreement, including the Swap Counterparty, an amount equal to the net amount then required to be paid to such person by the Authority pursuant to such an agreement; provided, however, with respect to certain interest rate swap agreements or similar hedge agreements, the Authority may elect to establish a separate account in the Revenue Fund and cause the Trustee to deposit on a monthly basis such amount as is necessary to cause the aggregate amount deposited therein in each month to equal a monthly portion of the amount that will be due to the relevant counterparty on the next payment date;

(d) as directed in a certificate of the Authority delivered to the Trustee, to the trustees or other depositories in respect of subordinated debt, if any, payable from Pledged Revenues, the amount necessary to cause the aggregate amount paid in respect of such subordinated debt from all sources to equal the amount then required to be paid in respect of each issue of subordinated debt;

(e) to the Authority, the amount necessary to cause the aggregate amount transferred to the Authority during the fiscal year of the Authority in which such transfer is made to equal the operating expenses of the Authority for such fiscal year as set forth in a certificate of the Authority delivered to the Trustee with respect to such fiscal year, to the extent that the amounts transferred from the Debt Service Reserve Fund pursuant to the applicable provisions of the Indenture are not sufficient for such purpose; and

(f) to the Rebate Fund, the amounts required to be deposited therein pursuant to the applicable provisions of the Indenture, to the extent that the transfers from the earnings in the Debt Service Reserve Fund pursuant to the applicable provisions of the Indenture are insufficient for such purpose.

Notwithstanding the foregoing order of priority, the Indenture requires that to the extent the Trustee is required to make payment of the Rebate Amount or Yield Reduction Amount to the United States of America pursuant to the Indenture and there are insufficient amounts in the Rebate Fund on the date which is thirty (30) days prior to the due date of such payment, the Trustee shall thereafter transfer moneys from the Revenue Fund to the Rebate Fund prior to making any other transfers of moneys to any other funds until the amount in the Rebate Fund equals the required Rebate Amount and Yield Reduction Amount. Any moneys remaining in the Revenue Fund after all transfers required by paragraphs (a), (b), (c), (d), (e) and (f) have been made shall be transferred by the Trustee to Wachovia Bank, National Association, for deposit to a special account (the "City Account"), in trust for the exclusive benefit of the City, established

and created under the Act and the City Account Deposit and Disbursement Agreement, dated as of December 6, 1991, as amended, between the Authority and First Union National Bank (now Wachovia Bank, National Association), Philadelphia, Pennsylvania, as depository. The City Account Deposit and Disbursement Agreement has been acknowledged and agreed to by the City.

(d) Debt Service Fund

On the date of settlement for each Series of Bonds, there shall be deposited in the Debt Service Fund an amount equal to the accrued interest, if any, on such Series of Bonds to the date of settlement therefor and any capitalized interest in respect of such Series. Amounts received by the Trustee pursuant to an interest rate exchange agreement or other agreement permitted by Section 304(10) of the Act in respect of a Series of Bonds shall be credited to the accounts in respect of such Series of Bonds.

Moneys in the Revenue Fund shall be transferred to the Debt Service Fund in accordance with the provisions detailed above under the discussion of the Revenue Fund. The Trustee shall use the moneys in the Debt Service Fund to pay the principal of and mandatory sinking fund installments and interest on the Bonds as it becomes due and payable and to pay any amount owed to the Credit Facility Issuer in respect of payments made for principal and interest on Bonds.

The Trustee shall establish as part of the Debt Service Fund a 1996 Bonds Sinking Fund Account, a 1999 Bonds Sinking Fund Account and a 2003 Bonds Sinking Fund Account for the retirement of certain of the 1996 Term Bonds, 1999 Term Bonds and 2003 Term Bonds, respectively. Certain of the 2003 Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts set forth in the Indenture. The Trustee shall transfer moneys from the Debt Service Fund to the Sinking Fund Accounts in the amounts required to retire the 1996 Term Bonds, the 1999 Term Bonds and the 2003 Term Bonds on the dates and in amounts so described. Notwithstanding the foregoing, the Indenture permits the Trustee, at the direction of the Authority prior to May 1 of each year in which 1996 Term Bonds, 1999 Term Bonds or 2003 Terms Bonds are subject to mandatory sinking fund redemption, to apply amounts deposited in the Sinking Fund Accounts to the purchase of as many 1996 Term Bonds, 1999 Term Bonds and 2003 Terms Bonds as can be purchased in the open market or pursuant to offers made at the time by the Bondholders thereof, at prices not exceeding the principal amount thereof, plus interest accrued to such date (which interest shall be paid from amounts in the Debt Service Fund).

The Revenue Fund and the Debt Service Fund allocable to the 2003 Bonds will be used primarily to achieve a proper matching of revenues and debt service on the 2003 Bonds within each 2003 Bond Year. Amounts in such Funds allocable to the 2003 Bonds are expected to be depleted at least once a year except for a reasonable carryover amount (not exceeding one year's earnings on such funds or 1/12 of the annual debt service on the 2003 Bonds). On the basis of a "first-in, first-out" method of calculation, money deposited into such Funds allocable to the 2003 Bonds will be spent within a 13-month period and any amount received from the investment of such Funds allocable to the 2003 Bonds will be spent within a one-year period beginning on the date of receipt thereof.

