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June 16, 2003

Pennsylvania Intergovernmental Cooperation
Authority
1429 Walnut Street, 14th Floor
Philadelphia, PA 19102

City of Philadelphia
Municipal Services Building, Room 1330
1401 JFK Boulevard
Philadelphia, PA 19102
ATTN: Janice Davis, Director of Finance

Re: $165,895,000 aggregate face amount Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program) Series of 2003

Ladies and Gentlemen:

You have asked our advice with respect to the calculation of the yield on the above bonds (the "Refunding Bonds") under section 148 of the Internal Revenue Code of 1986(the "Code"). The Refunding Bonds will be issued today by the Pennsylvania Intergovernmental Cooperation Authority (the "Authority"). The Authority will use the proceeds of the Refunding Bonds in a current refunding of certain outstanding revenue bonds issued by the Authority in 1993 (the "1993 Bonds"). The transaction is occurring pursuant to a "Swaption Agreement" entered into in 2001 as described below.

In November 2001 the Authority solicited cash bids from potential purchasers of an option to enter an interest rate swap contract with the Authority on June 16, 2003. Bids were submitted on November 16, 2001. The winning bidder was JPMorgan Chase Bank ("JPMorgan"), which offered a cash payment of $10,720,000. The option was granted in the form of a Floating to Fixed (Synthetic Fixed) Forward Starting Interest Rate Swaption Agreement (the "Swaption Agreement"), which was entered into by the Authority and JPMorgan on December 6, 2001, at which time JPMorgan paid the Authority $10,720,000 in accordance with its bid. Investment Management Advisory Group, Inc. ("Image") served as bidding agent.

The Authority "identified" the Swaption Agreement to the Refunding Bonds within three days of entering the Swaption Agreement. In doing so the Authority acted under Treas. Reg. § 1.148-4(h)(2)(viii) and 1.148-4(h)(5)(iv), which provide generally that payments by or to a bond issuer pursuant to a "qualified hedge" that is identified to a bond issue on the

records of the issuer can be taken into account in determining the yield on the bonds. An interest rate swap is specifically indicated as a contract that may be a qualified hedge.

JPMorgan has exercised its option, and, therefore, an interest rate swap transaction (the "Swap Agreement") will become effective today, pursuant to which JPMorgan will make floating rate payments to the Authority at a rate equal to 67% of the "1 Month LIBOR Index", and the Authority will make fixed rate payments to JPMorgan at rates provided for in the Swap Agreement. The fixed rates payable pursuant to the Swap Agreement correspond to the interest rates on certain fixed rate bonds issued by the Authority in 1993 (the "Prior Bonds"), which will be refunded with the proceeds of the Refunding Bonds in a current refunding.

The Refunding Bonds will be issued in an amount sufficient to redeem the Prior Bonds at a redemption price equal to their principal amount and to pay the costs of issuance of the Refunding Bonds. The Refunding Bonds will be weekly tender floating rate bonds with monthly payments. The Refunding Bonds will be insured by Ambac Assurance Corporation and supported as to liquidity by an agreement with JP Morgan.

Floating rate payments under the Swap Agreement will be determined on the basis of weekly reset dates with monthly payments on the same day as the payments of interest on the Refunding Bonds. Fixed rate payments under the Swap Agreement will be made semi-annually. The notional principal amount and amortization schedule of the Swap Agreement match the principal amount and amortization schedule of the Prior Bonds and correspond to the principal amount and amortization schedule of the Refunding Bonds except to the extent of the increase in principal amount of the Refunding Bonds on account of the costs of issuance.

JPMorgan has certified that in their best estimate, in light of the passage of time, 4.34% would have been the fixed rate that would have been on-market (i.e. not involving any upfront payment or premium) for a forward starting interest rate swap contract priced on November 16, 2001 (and entered December 6, 2001), if the contract had been mutually binding, rather than becoming effective at the option of JPMorgan, and assuming that all other terms were as provided in the Swap Agreement. This certification was made under Treas. Reg. § 1.141-4(h)(2)(i)(C), which provides that if a hedge provider makes a single payment to the bond issuer, the issuer may treat a portion of the contract as a hedge provided that the hedge provider's payment to the issuer and the issuer's payment under the contract in excess of those that it would make if the contract bore rates equal to the on-market rates for the contract are separately identified in a certification of the hedge provider, and the identified payments are not treated as payments on the hedge.

Image has certified that, based on historic data, the rate setting methodology used to compute payments on the refunding bonds is substantially the same as the index formula to be used to compute floating rate payments pursuant to the Swaption Agreement. In addition, the floating rate payments under the Swaption Agreement are reasonably expected to be substantially the same as the floating rate payments on the refunding bonds throughout the term of the Swaption Agreement so long as the refunding bonds are in the weekly tender mode, and assuming that there will be no material changes in the credit of the refunding bonds, or the

federal marginal tax rate. This certification is relevant to Treas. Reg. § 1.148-4(h)(2)(v) and Treas. Reg. § 1.148-4(h)(4).

Treas. Reg. § 1.148-4(h)(2)(v) provides that in order for an interest rate swap to constitute a qualified hedge, it must be "interest-based," meaning that as a result of treating all payments on and receipts from the contract as additional payments on and receipts from the hedged bond, the resulting bond must be substantially similar to either a fixed rate bond or certain forms of variable rate instrument described in the regulations. The regulation provides that differences that would not prevent the resulting bond from being substantially similar to a fixed rate bond include a difference between the index used to compute payments on the hedged bond and the index used to compute payments on the hedge where one index is substantially same, but not identical to the other. Treatment of a hedge as a qualified hedge under this rule means that all payments made or received under the hedge are treated as made or received with respect to the hedged bonds, similarly to interest. The hedged bonds are treated as variable yield bonds for purposes of yield calculations.

Treas. Reg. § 1.148-4(h)(4) provides that bonds hedged by a qualified hedge are treated as fixed yield bonds paying a fixed interest rate if (A) the term of the hedge is equal to the entire period during which the hedged bonds bear interest at variable interest rates, and the issuer does not reasonably expect that the hedge will be terminated before the end of that period, (B) payments to be received under the hedge correspond closely in time to the hedged portion of payments on the hedged bonds, and (C) taking into account all payments made and received under the hedge and all payments on the hedged bonds, the issuer's aggregate payments are fixed and determinable as of a date not later than 15 days after the issue date of the hedged bonds. The regulation provides that payments are treated as fixed if the payments on the bonds are based on one interest rate, payments on the hedge are based on a second interest rate that is substantially the same as, but not identical to the first interest rate, and payments on the bonds would be fixed if the two rates were identical. The regulation provides that rates are treated as substantially the same if they are reasonably expected to be substantially the same throughout the term of the hedge, giving the example that an objective 30-day tax-exempt variable rate index or other objective index may be substantially the same as an issuer's individual 30-day interest rate.

Hedged bonds treated as fixed yield bonds under Treas. Reg. § 1.148-4(h)(4) are treated for purposes of yield calculation has having floating rate interest payments that are exactly equal to the floating rate payments on the hedge, so that the two variable rate streams cancel each other out. The result is that the yield on the bonds is equal to the fixed rate payments on the hedge.

The Authority has advised us that it has no expectation to change the interest rate mode of the Refunding Bonds from a weekly mode to some other mode or to terminate the Swap Agreement while the Refunding Bonds bear interest in the weekly mode.

The regulations on qualified hedges are in addition to Treas. Reg. § 1.148-4(g), which allows issuers to take the cost of qualified guarantees into account in calculating bond yield.

In consideration of the foregoing, we are of the opinion that the Swap Agreement is properly integrated with the Refunding Bonds on a fixed yield basis under Treas. Reg. § 1.148-4(h)(4), with a yield calculation based on the fixed rate payments on the Swap Agreement to the extent not in excess of the on-market rate certified by JPMorgan and with appropriate adjustment for the excess of the amount of Refunding Bonds over the notional principal amount of the Swap Agreement. Qualified guarantee fees paid with respect to the Refunding Bonds may be taken into account in the manner provided in the applicable regulations.

We assume that consistently with this advice, the Authority will report the Refunding Bonds on a timely filed Form 8038-G as fixed yield bonds with an identified qualified hedge.

Very truly yours,